

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input checked="" type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Otsego County	County Otsego
Fiscal Year End December 31, 2006	Opinion Date May 4, 2007	Date Audit Report Submitted to State June 19, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe) Single Audit	<input checked="" type="checkbox"/>		
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC		Telephone Number 906-495-5952	
Street Address 16978 S. Riley Avenue		City Kincheloe	State MI Zip 49788
Authorizing CPA Signature <i>Kenneth A. Talsma</i>		Printed Name Kenneth A. Talsma	License Number 1101024989

COUNTY OF OTSEGO, MICHIGAN

BASIC FINANCIAL STATEMENTS

December 31, 2006

COUNTY OF OTSEGO, MICHIGAN

BOARD OF COMMISSIONERS

Paul M. Beachnau
Chairman

Kenneth Glasser
Vice Chairman

Erma Backenstose
Clark Bates
Allan Bentz
Michael Hyde

Doug Johnson
Paul Liss
Lee Olsen

OTHER OFFICIALS

John Burt
Appointed County Administrator

Susan DeFeyter
Clerk/Register of Deeds

Diann Axford
Treasurer

James D. McBride
Sheriff

Kyle Legel
Prosecuting Attorney

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Members of the Board
County of Otsego, Michigan
225 West Main Street
Gaylord, Michigan 49735

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Otsego, Michigan as of and for the year ended December 31, 2006, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County of Otsego's management. Our responsibility is to express opinions on these financial statements based on our audit.

We did not audit the financial statements of the Commission on Aging, which represents 1% and 8% of the assets and revenues of the Governmental Activities. We did not audit the financial statements of the Otsego County Road Commission, which represent 82% and 61% of the assets and revenues of the Discretely Presented Component Units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, is so far as it relates to the amounts recorded for the Commission on Aging and Road Commission, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

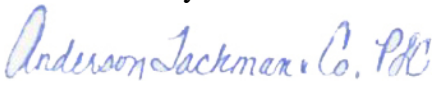
In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Otsego, Michigan as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2007 on our consideration of the County of Otsego's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparisons as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Otsego's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and is not a required part of the basic financial statements of the County of Otsego. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Anderson, Tackman & Company, PLC
Certified Public Accountants

May 4, 2007

Management's Discussion and Analysis

As management of the County of Otsego, we offer readers of the county's financial statements this narrative overview and analysis of the financial activities of the county for the fiscal year ended December 31, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the accompanying basic financial statements.

Financial Highlights of the County as a Whole

- The assets of the County of Otsego exceeded its liabilities at the close of the most recent fiscal year by \$28,304,566 (*net assets*). Of this amount, \$7,257,187 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- Governmental activities net assets were \$20,673,235.
- Business-type activity net assets were \$7,631,331.
- Component Unit net assets were \$19,505,835.

There were increases of \$3,094,992 and \$636,758 in net assets in the Governmental Activities and Business-Type Activities respectively. A deficit of \$68,437 in net assets was realized in the Component Units.

In a condensed format, the table below shows the net assets of Otsego County.

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and Other Assets	\$ 13,781,805	\$ 13,639,733	\$ 6,616,599	\$ 5,959,156	\$ 20,398,404	\$ 19,598,889
Noncurrent Assets	<u>13,179,650</u>	<u>12,894,939</u>	<u>1,231,496</u>	<u>1,172,927</u>	<u>14,411,146</u>	<u>14,067,866</u>
Total Assets	<u>\$ 26,961,455</u>	<u>\$ 26,534,672</u>	<u>\$ 7,848,095</u>	<u>\$ 7,132,083</u>	<u>\$ 34,809,550</u>	<u>\$ 33,666,755</u>
Current Liabilities	\$ 3,099,238	\$ 5,547,607	\$ 191,564	\$ 137,510	\$ 3,290,802	\$ 5,685,117
Noncurrent Liabilities	<u>3,188,982</u>	<u>3,408,822</u>	<u>25,200</u>	<u>-</u>	<u>3,214,182</u>	<u>3,408,822</u>
Total Liabilities	<u>6,288,220</u>	<u>8,956,429</u>	<u>216,764</u>	<u>137,510</u>	<u>6,504,984</u>	<u>9,093,939</u>
Net Assets						
Invested in Capital Assets - Net of Related Debt	9,781,382	8,638,249	1,142,287	1,172,927	10,923,669	9,811,176
Restricted	10,123,710	6,648,072	-	-	10,123,710	6,648,072
Unrestricted	<u>768,143</u>	<u>2,291,922</u>	<u>6,489,044</u>	<u>5,821,646</u>	<u>7,257,187</u>	<u>8,113,568</u>
Total Net Assets	<u>\$ 20,673,235</u>	<u>\$ 17,578,243</u>	<u>\$ 7,631,331</u>	<u>\$ 6,994,573</u>	<u>\$ 28,304,566</u>	<u>\$ 24,572,816</u>

Net Assets of the governmental activities increased by \$3.1 million. Net Assets of the business-type activities increased by \$636 thousand. An overview of the circumstances leading to the increases in net assets is provided in a subsequent section of this letter.

The following table shows the activities of the County.

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Program Revenues						
Charges for Services	\$ 3,577,045	\$ 3,910,061	\$ 1,019,440	\$ 1,027,150	\$ 4,596,485	\$ 4,937,211
Operating Grants and Contributions	4,767,707	4,604,489	1,435,636	1,295,819	6,203,343	5,900,308
Capital Grants and Contributions	1,274,579	-	150,000	236,668	1,424,579	236,668
General Revenues						
Property Taxes	8,948,321	8,137,548	274,279	265,840	9,222,600	8,403,388
Unrestricted Investment Earnings	362,198	189,893	264,872	120,009	627,070	309,902
Other Revenue	840,722	1,093,598	114,637	118,604	955,359	1,212,202
Transfers	<u>903,786</u>	<u>917,733</u>	<u>(76,023)</u>	<u>(91,000)</u>	<u>827,763</u>	<u>826,733</u>
Total Revenues	<u>20,674,358</u>	<u>18,853,322</u>	<u>3,182,841</u>	<u>2,973,090</u>	<u>23,857,199</u>	<u>21,826,412</u>
Expenses by Program						
Legislative	194,014	199,595	-	-	194,014	199,595
Judicial	4,148,536	4,328,280	-	-	4,148,536	4,328,280
General Government	2,526,211	2,190,861	-	-	2,526,211	2,190,861
Public Safety	3,379,454	3,196,867	-	-	3,379,454	3,196,867
Public Works	1,381,129	1,240,950	-	-	1,381,129	1,240,950
Health and Welfare	2,661,458	2,519,024	-	-	2,661,458	2,519,024
Community & Economic Development	1,163,344	867,173	-	-	1,163,344	867,173
Recreation and Culture	1,436,733	1,232,993	-	-	1,436,733	1,232,993
Other	478,317	964,044	-	80,592	478,317	1,044,636
Interest Unallocated	210,170	249,945	-	-	210,170	249,945
Delinquent Tax Collection	-	-	159,295	85,210	159,295	85,210
Public Transit	-	-	2,249,413	2,247,278	2,249,413	2,247,278
Other Expenses	<u>-</u>	<u>-</u>	<u>137,375</u>	<u>-</u>	<u>137,375</u>	<u>-</u>
Total Expenses	<u>17,579,366</u>	<u>16,989,732</u>	<u>2,546,083</u>	<u>2,413,080</u>	<u>20,125,449</u>	<u>19,402,812</u>
Changes in Net Assets	3,094,992	1,863,590	636,758	560,010	3,731,750	2,423,600
Net Assets Beginning	<u>17,578,243</u>	<u>15,714,653</u>	<u>6,994,573</u>	<u>6,434,563</u>	<u>24,572,816</u>	<u>22,149,216</u>
Net Assets Ending	<u>\$ 20,673,235</u>	<u>\$ 17,578,243</u>	<u>\$ 7,631,331</u>	<u>\$ 6,994,573</u>	<u>\$ 28,304,566</u>	<u>\$ 24,572,816</u>

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County of Otsego's basic financial statements. These statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements – The *government-wide financial statements* are designed to provide readers with a broad overview of Otsego County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Otsego County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Otsego County is improving or deteriorating.

The *Statement of Activities* presents information showing how the Otsego County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of Otsego County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). ***Governmental activities*** include legislative, judicial, general government, public safety, public works, health and welfare, community and economic development, recreation and culture, and other functions. ***Business-type activities*** include delinquent tax collections, public transit, global positioning system, metropolitan area network, plat books, and the operation of an inmate commissary.

The county's governmental activities also include the blending of legally separate entities (component units) for which the county is financially accountable. The ***component units*** include the Otsego County Road Commission, Otsego County Sportsplex, Otsego County Ambulance Corporation, Otsego County Commission on Aging, and the University Center at Gaylord. Of the entities, the Commission on Aging, while legally separate, functions for all practical purposes as a department of the County and, therefore, has been included as an integral part of the primary government. Financial information for the balance of the component units are reported separately from the financial information presented for the primary government itself. Separately issued reports can be obtained from each component unit's office as stated in Note 1.

Fund Financial Statements – A fund is a grouping of related accounts and is used to maintain control over resources that have been segregated for specific activities or objectives. The County of Otsego, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Otsego County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds – Most of the county's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the county's general governmental operations and the basic services it provides.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *government funds* and *governmental activities*.

The County of Otsego maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for each major fund of the county. The major funds of the county include the general; M-TEC, housing commission, public improvements, and revenue sharing reserve funds. Data for the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

Proprietary Funds – The County maintains both types of proprietary funds: enterprise and internal service. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The county uses enterprise funds to account for its delinquent tax, tax foreclosure public transit, global positioning system, imaging, plat book, and jail commissary operations. *Internal service funds* are used to accumulate and allocate costs internally among the county's various functions. Otsego County has the following internal service funds: building and grounds, administrative services and health care. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only with more detail. The proprietary fund financial statements provide separate information for each enterprise fund.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the county's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning Otsego County's budgeting for the major funds, which includes the original budget and final amended budget.

The combining statements referred to earlier in connection with non-major governmental funds and combining component unit funds are presented immediately following the required supplementary information.

Government-Wide Financial Analysis

The government-wide financial analysis focuses on the net assets and changes in net assets of the governmental and business-type activities. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The county's net assets at December 31, 2006 totaled \$28,304,566, an increase of \$3,731,750 from the prior year.

The largest portion of the County's net assets, \$10,923,669 (39 percent), reflects its investment in capital assets (i.e., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the county's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the county's net assets, \$10,123,710 (36 percent), represents resources that are subject to external restrictions on how they may be used.

The remaining balance of \$7,257,187 (25 percent) represents *unrestricted net assets* that may be used to meet the county's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the county is able to report positive balances in all three categories (invested in capital assets-net of related debt, restricted, and unrestricted) of net assets, both for the government as a whole, as well as for its total governmental and business-type activities.

The county's overall net assets increased by \$3,731,750 during the current fiscal year. This increase is attributable to various reasons, as described in the following paragraphs:

Governmental Activities – Governmental activities increased the county's net assets by \$3,094,992. The increase is primarily due to growth in property taxes (approximate increase of \$810,000 from the prior year), and a gain of approximately \$1,200,000 in federal grant dollars to construct a new airport terminal. Additionally, the Board of Commissioners has worked to manage its costs by increasing the efficiency of county operations, which is evident in the minimal increase of expenditures from the prior year (3 percent).

Business-Type Activities – Business-type activities increased the county's net assets by \$636,758. The increase is primarily due to significantly less transfers out of the Delinquent Tax Revolving Fund to fund governmental activities.

Financial Analysis of the County's Funds

As noted earlier, Otsego County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds – The focus of the county's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the county's financing requirements. In particular, *unreserved* fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

On December 31, 2006, the county's governmental funds reported combined ending fund balance of \$8,954,256, an increase of \$1,778,714 when compared with the prior year. This is primarily attributable to increases in property tax revenues, along with effectively managing expenditure levels. Of the fund balance amount, \$376,002 constitutes *unreserved fund balance*, which is available for meeting the county's current obligations.

The General Fund is the chief operating fund of the county. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$376,002, with a total fund balance of \$455,625. The fund balance of the county's General Fund increased by \$209,979 during the current fiscal year. This is primarily attributable to increases in property tax revenues, offset by decreased funding from State and Federal sources, coupled with a 5 percent reduction in overall general fund expenditures.

The county's M-TEC fund had a total fund balance of \$43, which increased by \$11,731 from the prior year.

The county's Housing Commission had an ending fund balance of \$134,711, all of which was reserved for housing projects.

The county's Revenue Sharing Reserve Fund had an ending fund balance of \$3,396,144. This was a new fund beginning in 2004 and was created as a result of Public Act 357 of 2004. PA 357 of 2004 involves a gradual shift of county operating property tax millage from a winter tax levy to a summer tax levy and additionally, required the establishment of this restricted fund.

Proprietary Funds – The County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the enterprise funds at year-end amounted to \$6,489,044. The enterprise funds had an increase in net assets for the year of \$636,758, due primarily to enhanced investment earnings in the delinquent tax revolving fund.

Unrestricted net assets of the internal service funds at year-end amounted to \$538,271. The internal service funds had an increase in net assets for the year of \$68,808.

Budgetary Highlights

General Fund – Differences between the original and final amended budgets for revenue of the general fund (revenue and other financing sources) resulted in a 4 percent increase (\$481,292).

Differences between the original and final amended budgets for expenditures (expenditures and other financing uses) resulted in a 4 percent increase, (\$481,292).

Due to legal issues surrounding the 46th Circuit Trial Court, prior management chose not to include certain portions of the court system in the original General Appropriations Act and made monthly budget amendments to account for court system activity. This accounts for most of the large variance between original and final budgets.

Overall during the year, General Fund revenues (revenue and other financing sources) were in line with the budgetary estimates but came in lower than anticipated by \$243,691 or 3 percent. Expenditures (expenditures and other financing uses) were below the budgetary estimates. Overall expenditures were under budget by \$453,670 or 5 percent. The greatest variance for both revenues and expenditures was due to the 46th Circuit Trial Court budgeting method, described in the previous paragraph.

M-TEC Fund – The M-TEC fund had a favorable variance between the final amended budget and actual expenditures by \$778 or .1 percent.

Housing Commission Fund – The Housing Commission Fund had a favorable variance between the final amended budget and the actual expenditures by \$115,164 or 23 percent.

Revenue Sharing Reserve Fund – The Revenue Sharing Reserve Fund had no variances between the final amended budget and actual expenditures.

Public Improvement Fund – the Public Improvement Fund had a favorable variance between final amended budget and actual of \$10.

Budget-to-actual comparisons for the county's non-major special revenue funds were favorable.

Capital Asset and Debt Administration

Capital Assets. The county's investment in capital assets as of December 31, 2006, amounted to \$14,269,582, (net of accumulated depreciation). This investment in capital assets includes land and land improvements, buildings and improvements, machinery and equipment, and vehicular equipment. The total increase in the county's investment in capital assets for the current fiscal year was approximately 1.8 percent. Major capital asset events during the current fiscal year included the following:

- \$51,000 for law enforcement vehicles
- \$1,234,000 for the construction of an airport terminal
- \$105,000 for renovation of the transition house
- \$47,000 for computer and classroom equipment for the University Center
- \$1,258,000 in depreciation expense on county assets

Additional information on capital assets can be found in Note 5 of this report.

Long-Term Debt – Debt is classified as long-term if it matures in a period greater than one year. At the end of the current fiscal year, the county had total bonded debt outstanding of \$3,285,000. The County's total debt decreased by \$750,000 (19 percent) during the current fiscal year.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation (State Equalized Value). The current debt limitation for the county is \$112,299,891, which is significantly in excess of the county's outstanding general obligation debt. Additional information on the county's long-term debt can be found in Note 7 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the county's 2007 budget:

- Property tax revenues are projected to increase 4 percent in 2007.
- The worsening state economy will result in decreasing state funding. The real effects of the decreases, particularly in State Revenue Sharing are yet to be known.
- The cost of employee benefits continue to rise and will be monitored throughout the year.

Highlights of the 2007 budget are as follows:

- The county implemented staffing and benefit cuts to manage rising costs.
- The county has adopted a goal of increasing its budget stabilization fund over the course of the next several years, in order to manage its costs and cash flows.

Contacting the County's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have any questions about this report or need additional information, please contact Mr. John Burt, Otsego County Administrator at 225 West Main Street Gaylord, MI 49735.

Basic Financial Statements

County of Otsego, Michigan

Statement of Net Assets December 31, 2006

	Primary Government			
	Governmental Activities	Business-type Activities	Totals	Component Units
ASSETS:				
Current Assets:				
Cash & Equivalents	\$ 4,724,512	\$ 1,955,898	\$ 6,680,410	\$ 667,175
Investments	3,340,890	2,359,145	5,700,035	1,324,273
Receivables:				
Taxes	3,662,401	1,778,163	5,440,564	1,397,720
Accounts	68,085	32,482	100,567	1,047,897
Interest	-	204,410	204,410	-
Loans	1,555,456	-	1,555,456	-
Due from Component Units	12,349	-	12,349	-
Due from Governmental Units	364,849	286,501	651,350	-
Inventories	41,441	-	41,441	623,472
Prepaid Expenses	11,822	-	11,822	-
Total Current Assets	13,781,805	6,616,599	20,398,404	5,060,537
Noncurrent Assets:				
Advance to Component Unit	86,564	55,000	141,564	-
Internal Balance	26,704	(26,704)	-	-
Capital Assets Not Depreciated	1,639,897	99,998	1,739,895	159,408
Capital Assets (Net of Accumulated Depreciation)	11,426,485	1,103,202	12,529,687	16,829,556
Total Noncurrent Assets	13,179,650	1,231,496	14,411,146	16,988,964
TOTAL ASSETS	\$ 26,961,455	\$ 7,848,095	\$ 34,809,550	\$ 22,049,501
LIABILITIES:				
Current Liabilities:				
Accounts Payable	\$ 342,708	\$ 48,197	\$ 390,905	\$ 149,774
Accrued Liabilities	106,780	49,299	156,079	114,748
Other Liabilities	210,061	34,477	244,538	44,569
Due to Primary Government	-	-	-	12,349
Advances from Other Governmental Units	50,000	-	50,000	334,804
Due to Governmental Units	235,927	50,582	286,509	-
Deferred Revenue	1,901,614	-	1,901,614	1,408,387
Interest Payable	37,148	-	37,148	-
Bonds Payable	215,000	-	215,000	-
Capital Leases Payable	-	-	-	62,003
Installment Purchase Agreement	-	9,009	9,009	105,063
Total Current Liabilities	3,099,238	191,564	3,290,802	2,231,697
Noncurrent Liabilities:				
Vested Employee Benefits	118,982	-	118,982	72,774
Advances from Primary Government	-	-	-	141,564
Bonds Payable	3,070,000	-	3,070,000	-
Capital Leases Payable	-	-	-	25,738
Installment Purchase Agreement	-	25,200	25,200	71,893
Total Noncurrent Liabilities	3,188,982	25,200	3,214,182	311,969
TOTAL LIABILITIES	6,288,220	216,764	6,504,984	2,543,666
NET ASSETS:				
Invested in Capital Assets (net of related debt)	9,781,382	1,142,287	10,923,669	16,724,267
Restricted for Debt Service	112,191	-	112,191	-
Restricted for Capital Projects	904,008	-	904,008	-
Restricted for Ambulance and Emergency Services	-	-	-	131,551
Restricted for County Roads	-	-	-	1,487,811
Restricted for Sportsplex	-	-	-	658,578
Restricted for University Center	-	-	-	503,628
Restricted for Public Improvement	1,440,485	-	1,440,485	-
Restricted for Housing Commission	1,690,167	-	1,690,167	-
Restricted for Revenue Sharing	3,396,144	-	3,396,144	-
Restricted for Other Purposes	2,580,715	-	2,580,715	-
Unrestricted	768,143	6,489,044	7,257,187	-
TOTAL NET ASSETS	\$ 20,673,235	\$ 7,631,331	\$ 28,304,566	\$ 19,505,835
See accompanying notes to financial statements				

County of Otsego, Michigan

Statement of Activities For the Year Ended December 31, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental Activities:								
Legislative	\$ 194,014	\$ -	\$ -	\$ -	\$ (194,014)	\$ -	\$ (194,014)	\$ -
Judicial	4,148,536	706,904	2,985,149	-	(456,483)	-	(456,483)	-
General Government	2,526,211	488,745	320,545	-	(1,716,921)	-	(1,716,921)	-
Public Safety	3,379,454	1,152,742	180,125	35,836	(2,010,751)	-	(2,010,751)	-
Public Works	1,381,129	858,461	-	1,238,743	716,075	-	716,075	-
Health & Welfare	2,661,458	173,402	739,581	-	(1,748,475)	-	(1,748,475)	-
Community and Economic Development	1,163,344	-	100,196	-	(1,063,148)	-	(1,063,148)	-
Recreation and Culture	1,436,733	196,791	222,959	-	(1,016,983)	-	(1,016,983)	-
Other	478,317	-	219,152	-	(259,165)	-	(259,165)	-
Interest - Unallocated	210,170	-	-	-	(210,170)	-	(210,170)	-
Total Governmental Activities	17,579,366	3,577,045	4,767,707	1,274,579	(7,960,035)	-	(7,960,035)	-
Business-type Activities:								
Tax Collection	159,295	549,874	-	-	-	390,579	390,579	-
Public Transit	2,249,413	325,491	1,435,636	150,000	-	(338,286)	(338,286)	-
Non-Major Enterprise Funds	137,375	144,075	-	-	-	6,700	6,700	-
Total Business-type Activities	2,546,083	1,019,440	1,435,636	150,000	-	58,993	58,993	-
Total Primary Government	\$ 20,125,449	\$ 4,596,485	\$ 6,203,343	\$ 1,424,579	(7,960,035)	58,993	(7,901,042)	-
Component Units:								
Road Commission	6,309,330	1,274,765	5,175,626	-				141,061
Ambulance	1,480,027	1,078,909	-	-				(401,118)
University Center	616,955	-	208,894	-				(408,061)
Sportsplex	1,561,916	514,123	2,840	-				(1,044,953)
Total Component Units	9,968,228	2,867,797	5,387,360	-				(1,713,071)
Total	\$ 30,093,677	\$ 7,464,282	\$ 11,590,703	\$ 1,424,579				
General Revenues and Transfers:								
Taxes					8,948,321	274,279	9,222,600	2,244,351
Investment Earnings (Loss)					362,198	264,872	627,070	171,408
Transfers					903,786	(76,023)	827,763	(827,763)
Other					840,722	114,637	955,359	56,638
Total General Revenues and Transfers					11,055,027	577,765	11,632,792	1,644,634
Changes in Net Assets					3,094,992	636,758	3,731,750	(68,437)
Net Assets - Beginning					17,578,243	6,994,573	24,572,816	19,574,272
Net Assets - Ending					\$ 20,673,235	\$ 7,631,331	\$ 28,304,566	\$ 19,505,835

See accompanying notes to financial statements.

County of Otsego, Michigan

Balance Sheet Governmental Funds December 31, 2006

	General	M-TEC	Housing Commission	Revenue Sharing Reserve	Public Improvement	Other Governmental Funds	Total Governmental Funds
ASSETS:							
Cash & Equivalents - Unrestricted	\$ 267,226	\$ 43	\$ 205,986	\$ 943,985	\$ 834,702	\$ 2,411,150	\$ 4,663,092
Investments	-	-	-	990,000	300,000	1,535,201	2,825,201
Receivables:							
Taxes	409,344	748,601	-	1,462,159	-	1,042,297	3,662,401
Accounts	1,930	-	-	-	-	48,066	49,996
Loans	-	-	1,555,456	-	-	-	1,555,456
Due from Other Funds	169,498	-	-	-	216,030	6,993	392,521
Due from Component Units	12,349	-	-	-	-	-	12,349
Due from Governmental Units	193,706	-	-	-	-	168,086	361,792
Inventories	5,908	-	-	-	-	35,208	41,116
Prepaid Expenditures	6,424	-	-	-	-	5,398	11,822
Long-Term Advances to:							
Other Funds - Primary Government	-	-	-	-	26,704	-	26,704
Other Funds - Component Units	23,515	-	-	-	63,049	-	86,564
TOTAL ASSETS	\$ 1,089,900	\$ 748,644	\$ 1,761,442	\$ 3,396,144	\$ 1,440,485	\$ 5,252,399	\$ 13,689,014
LIABILITIES:							
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 392,521	\$ 392,521
Accounts Payable	130,061	-	71,066	-	-	94,226	295,353
Due to Governmental Units	145,849	-	-	-	-	90,078	235,927
Accrued Liabilities	46,902	-	209	-	-	56,030	103,141
Other Liabilities	210,061	-	-	-	-	-	210,061
Advances from State	-	-	-	-	-	50,000	50,000
Deferred Revenue	101,402	748,601	1,555,456	-	-	1,042,296	3,447,755
TOTAL LIABILITIES	634,275	748,601	1,626,731	-	-	1,725,151	4,734,758
FUND BALANCES:							
Reserved for Long-Term Advances	23,515	-	-	-	-	-	23,515
Reserved for Motorcycle Safety Grant	7,555	-	-	-	-	-	7,555
Reserved for Family Counseling	42,645	-	-	-	-	-	42,645
Reserved for Inventory	5,908	-	-	-	-	35,208	41,116
Reserved for Schneider Trust	-	-	-	-	-	50,860	50,860
Reserved for Debt Service	-	-	-	-	-	112,191	112,191
Reserved for Capital Projects/Improvements	-	43	-	-	1,440,485	903,965	2,344,493
Reserved for Housing Projects	-	-	134,711	-	-	-	134,711
Reserved for Revenue Sharing Reserve	-	-	-	3,396,144	-	-	3,396,144
Reserved for Special Revenue Programs	-	-	-	-	-	2,415,024	2,415,024
Unreserved:							
Undesignated	376,002	-	-	-	-	-	376,002
Designated	-	-	-	-	-	10,000	10,000
TOTAL FUND BALANCES	455,625	43	134,711	3,396,144	1,440,485	3,527,248	8,954,256
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,089,900	\$ 748,644	\$ 1,761,442	\$ 3,396,144	\$ 1,440,485	\$ 5,252,399	
Reconciliation to amounts reported for governmental activities in the statement of net assets:							
Capital assets used by governmental activities							13,066,382
Long term notes & leases payable for governmental activities							(3,285,000)
Compensated absences liability							(118,982)
Deferred revenue recognized as current revenue							1,555,456
Internal Service Funds							538,271
Accrued Interest Expense							(37,148)
Net assets of governmental activities							\$ 20,673,235

County of Otsego, Michigan

Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds For the Year Ended December 31, 2006

	General	M-TEC	Housing Commission	Revenue Sharing Reserve	Public Improvement	Other Governmental Funds	Total Governmental Funds
REVENUES:							
Taxes and Penalties	\$ 4,630,702	\$ 712,491	\$ -	\$ 1,462,159	\$ -	\$ 2,142,969	\$ 8,948,321
Licenses & Permits	38,742	-	-	-	-	-	38,742
Federal Sources	668,867	-	61,670	-	-	1,187,440	1,917,977
State Sources	962,776	-	-	-	-	882,465	1,845,241
Local Sources	1,708,366	-	38,526	-	-	91,901	1,838,793
Charges for Services	1,105,875	-	-	-	-	2,388,521	3,494,396
Fines & Forfeits	23,325	-	-	-	-	197,798	221,123
Interest & Rentals	76,476	-	12,478	60,589	52,913	390,178	592,634
Other Revenue	206,138	-	115,763	-	75,932	319,937	717,770
TOTAL REVENUES	9,421,267	712,491	228,437	1,522,748	128,845	7,601,209	19,614,997
EXPENDITURES:							
Legislative	194,014	-	-	-	-	-	194,014
Judicial	3,980,434	-	-	-	-	158,855	4,139,289
General Government	2,047,131	-	-	-	-	169,287	2,216,418
Public Safety	1,919,131	-	-	-	-	1,395,990	3,315,121
Public Works	3,250	-	-	-	-	1,036,856	1,040,106
Health & Welfare	463,396	-	-	-	-	2,195,564	2,658,960
Community/Economic Development	53,203	724,222	385,919	-	-	-	1,163,344
Recreation and Culture	-	-	-	-	-	1,217,857	1,217,857
Other Expenditures	404,705	-	-	-	-	-	404,705
Capital Outlay	-	-	-	-	105,700	1,311,655	1,417,355
Debt Service	-	-	-	-	-	972,900	972,900
TOTAL EXPENDITURES	9,065,264	724,222	385,919	-	105,700	8,458,964	18,740,069
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	356,003	(11,731)	(157,482)	1,522,748	23,145	(857,755)	874,928
OTHER FINANCING SOURCES (USES):							
Operating Transfers In	963,732	-	-	-	-	1,858,269	2,822,001
Operating Transfers Out	(1,109,756)	-	(250)	(408,204)	-	(400,005)	(1,918,215)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	209,979	(11,731)	(157,732)	1,114,544	23,145	600,509	1,778,714
FUND BALANCES, JANUARY 1	245,646	11,774	292,443	2,281,600	1,078,344	3,265,735	7,175,542
Prior Period Adjustment	-	-	-	-	338,996	(338,996)	-
FUND BALANCES, DECEMBER 31	\$ 455,625	\$ 43	\$ 134,711	\$ 3,396,144	\$ 1,440,485	\$ 3,527,248	\$ 8,954,256

**Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2006**

Net Changes in fund balances - total governmental funds \$ 1,778,714

The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$1,413,825) exceeded depreciation (\$1,020,692). 393,133

Revenues earned but not available for current resources are not reported in the funds.

Housing Commission - Loans increased during 2006 86,767

Repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Principal repayments:
Bonds Payable 750,000

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:

Compensated absences 4,840
Accrued interest expense 12,730

Internal service fund activity 68,808

Changes in net assets of governmental activities \$ 3,094,992

County of Otsego, Michigan

Statement of Net Assets Proprietary Funds December 31, 2006

	Business-Type Activities - Enterprise Funds				Governmental Activities
	Major		Non-Major	Total	Internal
	Delinquent Tax Fund	9/30/2006 Public Transit	Enterprise Funds	Enterprise Funds	Service Funds
ASSETS:					
Current Assets					
Cash and Equivalents	\$ 1,759,224	\$ 52,247	\$ 144,427	\$ 1,955,898	\$ 61,420
Investments	2,359,145	-	-	2,359,145	515,689
Taxes Receivable	1,778,163	-	-	1,778,163	-
Interest Receivable	204,410	-	-	204,410	-
Accounts Receivable	-	32,482	-	32,482	18,089
Due from Governmental Units	81,665	204,836	-	286,501	3,057
Advances to Component Units	55,000	-	-	55,000	-
Inventory	-	-	-	-	325
Total Current Assets	6,237,607	289,565	144,427	6,671,599	598,580
Noncurrent Assets					
Capital Assets, Not Depreciation	-	99,998	-	99,998	-
Capital Assets, Net of Accumulated Depreciation	-	894,128	209,074	1,103,202	-
TOTAL ASSETS	\$ 6,237,607	\$ 1,283,691	\$ 353,501	\$ 7,874,799	\$ 598,580
LIABILITIES:					
Current Liabilities					
Accounts Payable	\$ 10,202	\$ 25,496	\$ 12,499	\$ 48,197	\$ 47,355
Accrued Liabilities	681	48,618	-	49,299	3,639
Due to State	-	50,582	-	50,582	-
Installment Purchase Agreement	-	9,009	-	9,009	-
Other Liabilities	11,017	23,460	-	34,477	-
Deferred Revenue	-	-	-	-	9,315
Total Current Liabilities	21,900	157,165	12,499	191,564	60,309
Noncurrent Liabilities					
Installment Purchase Agreement	-	25,200	-	25,200	-
Long-term Advance from Other Funds	-	26,704	-	26,704	-
TOTAL LIABILITIES	21,900	209,069	12,499	243,468	60,309
NET ASSETS:					
Invested in Capital Assets - Net of Related Debt	-	933,213	209,074	1,142,287	-
Unrestricted	6,215,707	141,409	131,928	6,489,044	538,271
TOTAL NET ASSETS	\$ 6,215,707	\$ 1,074,622	\$ 341,002	\$ 7,631,331	\$ 538,271

County of Otsego, Michigan

Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds For the Year Ended December 31, 2006

	Business-Type Activities - Enterprise Funds				Governmental Activities
	Major		Non-Major Enterprise Funds	Total Enterprise Funds	Internal Service Funds
	Delinquent Tax Fund	9/30/2006 Public Transit			
OPERATING REVENUES:					
Local Sources	\$ -	\$ -	\$ 9,000	\$ 9,000	\$ -
Charges for Services	190,059	325,491	144,075	659,625	939,950
Interest on Delinquent Taxes	359,815	-	-	359,815	-
Other Revenues	3,950	-	-	3,950	1,470,747
TOTAL REVENUES	553,824	325,491	153,075	1,032,390	2,410,697
OPERATING EXPENSES:					
Salaries, Wages, and Fringe Benefits	51,787	1,486,620	-	1,538,407	503,866
Contractual Services	-	-	60,747	60,747	22,421
Materials and Supplies	50,694	-	64,330	115,024	9,901
Equipment Repair and Maintenance	53,612	-	-	53,612	69,693
Utilities	-	-	-	-	261,654
Depreciation	-	172,123	12,298	184,421	-
Other Expenses	3,202	590,670	-	593,872	1,499,255
TOTAL EXPENSES	159,295	2,249,413	137,375	2,546,083	2,366,790
OPERATING INCOME (LOSS)	394,529	(1,923,922)	15,700	(1,513,693)	43,907
NON-OPERATING REVENUES (EXPENSES):					
State Operating Grants	-	593,749	-	593,749	-
Federal Operating Grants	-	276,122	-	276,122	-
Interest Earned on Investments	206,693	1,706	449	208,848	24,901
Contributions from Other Units	-	565,765	-	565,765	-
Property Taxes Levied	-	274,279	-	274,279	-
Unrealized Gain on Investments	56,024	-	-	56,024	-
Other	-	101,687	-	101,687	-
TOTAL NONOPERATING REVENUES(EXPENSES)	262,717	1,813,308	449	2,076,474	24,901
INCOME(LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	657,246	(110,614)	16,149	562,781	68,808
CAPITAL CONTRIBUTIONS:					
Contributions From State Sources	-	20,000	-	20,000	-
Contributions From Federal Sources	-	130,000	-	130,000	-
INTERFUND TRANSFERS:					
Operating Transfers In	75,000	-	9,000	84,000	-
Operating Transfers Out	(160,023)	-	-	(160,023)	-
CHANGES IN NET ASSETS	572,223	39,386	25,149	636,758	68,808
NET ASSETS, JANUARY 1	5,643,484	1,035,236	315,853	6,994,573	469,463
NET ASSETS, DECEMBER 31	\$ 6,215,707	\$ 1,074,622	\$ 341,002	\$ 7,631,331	\$ 538,271

County of Otsego, Michigan

Statement of Cash Flows Proprietary Funds For the Year Ended December 31, 2006

	Business-Type Activities - Enterprise Funds				Governmental Activities
	Major		Non-Major	Total	Internal
	Delinquent Tax Fund	9/30/2006 Public Transit	Non-Major Enterprise Funds	Enterprise Funds	Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from Customers	\$ 642,561	\$ 235,915	\$ 163,255	\$ 1,041,731	\$ 2,397,153
Interest on Delinquent Taxes	305,707	-	-	305,707	-
Delinquent Taxes Purchased	(3,462,360)	-	-	(3,462,360)	-
Delinquent Taxes Collected	3,270,182	-	-	3,270,182	-
Payments to Suppliers	(111,721)	(547,782)	(116,600)	(776,103)	(1,868,646)
Payments to Employees for Services and Benefits	(51,808)	(1,497,174)	-	(1,548,982)	(504,547)
Internal Activity - Receipts (Payments) to Other Funds	(55,000)	-	-	(55,000)	-
Net Cash Provided (Used) by Operating Activities	537,561	(1,809,041)	46,655	(1,224,825)	23,960
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
State Grants	-	593,749	-	593,749	-
Federal Grants	-	256,260	-	256,260	-
State and Federal Grants - Prior Year Adjustments	-	19,862	-	19,862	-
Property Tax	-	274,279	-	274,279	-
Contributions from Other Units	-	565,765	-	565,765	-
Other	-	101,687	-	101,687	-
Operating Transfers In	75,000	-	9,000	84,000	-
Operating Transfers Out	(160,023)	-	-	(160,023)	-
Net Cash Provided (Used) by Noncapital Financing Activities	(85,023)	1,811,602	9,000	1,735,579	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds from Notes Payable	-	37,990	-	37,990	-
Repayment of Note Principal	-	(3,781)	-	(3,781)	-
Federal and State Capital Assistance	-	150,000	-	150,000	-
Long-term Advance from County	-	(150,000)	-	(150,000)	-
Capital Assets Purchased with Transit Corporation Money	-	(37,990)	-	(37,990)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	-	(3,781)	-	(3,781)	-
CASH FLOWS FROM INVESTING ACTIVITIES:					
Net Sale or (Purchase) of Investments	148,649	-	-	148,649	(515,689)
Unrealized Gain on Investments	56,024	-	-	56,024	-
Interest Income	206,693	1,706	449	208,848	24,901
Net Cash Provided (Used) by Investing Activities	411,366	1,706	449	413,521	(490,788)
Net Increase (Decrease) in Cash and Cash Equivalents	863,904	486	56,104	920,494	(466,828)
Balances - Beginning of the Year	895,320	51,761	88,323	1,035,404	528,248
Balances - End of the Year	\$ 1,759,224	\$ 52,247	\$ 144,427	\$ 1,955,898	\$ 61,420
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Operating Income (Loss)	\$ 394,529	\$ (1,923,922)	\$ 15,700	\$ (1,513,693)	\$ 43,907
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Depreciation Expense	-	172,123	12,298	184,421	-
Change in Assets and Liabilities:					
Taxes Receivable	(501,282)	-	-	(501,282)	-
Accrued Interest Receivable	(54,108)	-	-	(54,108)	-
Accounts Receivable	-	(89,576)	10,180	(79,396)	584
Due from Other Governmental Units	549,188	-	-	549,188	(14,128)
Other Assets	200,000	-	-	200,000	-
Due from Other Funds	(55,000)	-	-	(55,000)	-
Accounts Payable	6,344	(14,750)	8,477	71	(5,622)
Accrued Liabilities	21	-	-	21	(781)
Other Liabilities	(2,131)	47,084	-	44,953	-
Deferred Revenue	-	-	-	-	-
Net Cash Provided (Used) by Operating Activities	\$ 537,561	\$ (1,809,041)	\$ 46,655	\$ (1,224,825)	\$ 23,960
See accompanying notes to financial statements.					

Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2006

	Agency Funds	Other Post Employment Trust Fund
ASSETS:		
Cash and Equivalents	\$ 1,527,837	\$ 82,090
Investments	100,000	350,000
Accounts Receivable	-	660
TOTAL ASSETS	\$ 1,627,837	\$ 432,750
LIABILITIES:		
Accounts Payable	\$ 24,946	\$ -
Due to Governmental Units	26,596	-
Undistributed Receipts	210,254	-
Undistributed Tax Collections	1,193,523	-
Bonds, Restitutions and Payable's to Others	96,402	-
Other Liabilities	76,116	-
TOTAL LIABILITIES	\$ 1,627,837	-
NET ASSETS:		
Net Assets Held in Trust		\$ 432,750

**Statement of Changes in
Fiduciary Net Assets
Fiduciary Fund
For the Year Ended December 31, 2006**

	<u>Private Purpose Employee Retirement</u>
ADDITIONS:	
Contributions:	
Employer	<u>\$ 72,441</u>
Total Contributions	<u>72,441</u>
Investment Income:	
Interest	<u>14,162</u>
Total Investment Income	<u>14,162</u>
Total Additions	<u>86,603</u>
DEDUCTIONS:	
Benefits	<u>6,648</u>
Total Deductions	<u>6,648</u>
Changes in Net Assets	79,955
Net Assets - Beginning of the Year	<u>352,795</u>
Net Assets - End of the Year	<u><u>\$ 432,750</u></u>

Component Units

County of Otsego, Michigan

Statement of Net Assets Component Units December 31, 2006

	Road Commission	Ambulance Corporation	University Center	Sportsplex	Totals
ASSETS:					
Current Assets					
Cash and Equivalents	\$ 5,300	\$ 2,317	\$ 454,193	\$ 205,365	\$ 667,175
Investments	724,273	-	100,000	500,000	1,324,273
Receivables					
Taxes	-	463,243	644,950	289,527	1,397,720
Accounts	722,156	273,000	9,905	42,836	1,047,897
Inventories	559,752	-	-	63,720	623,472
Total Current Assets	2,011,481	738,560	1,209,048	1,101,448	5,060,537
Noncurrent Assets					
Capital Assets (Not Depreciated)	159,408	-	-	-	159,408
Capital Assets (Net of Accumulated Depreciation)	16,090,275	621,520	117,761	-	16,829,556
Total Noncurrent Assets	16,249,683	621,520	117,761	-	16,988,964
TOTAL ASSETS	\$ 18,261,164	\$ 1,360,080	\$ 1,326,809	\$ 1,101,448	\$ 22,049,501
LIABILITIES:					
Current Liabilities:					
Accounts Payable	\$ 26,434	\$ 2,202	\$ 26,642	\$ 94,496	\$ 149,774
Accrued Liabilities	89,658	-	23,161	1,929	114,748
Due to Primary Government	-	-	-	12,349	12,349
Advance from State	334,804	-	-	-	334,804
Deferred Revenue	-	463,243	655,617	289,527	1,408,387
Other Liabilities	-	-	-	44,569	44,569
Capital Leases	-	62,003	-	-	62,003
Installment Purchase Agreement	105,063	-	-	-	105,063
Total Current Liabilities	555,959	527,448	705,420	442,870	2,231,697
Noncurrent Liabilities:					
Long-term Advance from Primary Government	-	141,564	-	-	141,564
Capital Leases	-	25,738	-	-	25,738
Installment Purchase Agreement	71,893	-	-	-	71,893
Vested Employee Benefits	72,774	-	-	-	72,774
Total Noncurrent Liabilities	144,667	167,302	-	-	311,969
TOTAL LIABILITIES	700,626	694,750	705,420	442,870	2,543,666
NET ASSETS:					
Invested in Capital Assets, net of related debt	16,072,727	533,779	117,761	-	16,724,267
Restricted for County Road	1,487,811	-	-	-	1,487,811
Restricted for Ambulance and Emergency Services	-	131,551	-	-	131,551
Restricted for Sportsplex	-	-	-	658,578	658,578
Restricted for University Center	-	-	503,628	-	503,628
TOTAL NET ASSETS	\$ 17,560,538	\$ 665,330	\$ 621,389	\$ 658,578	\$ 19,505,835

County of Otsego, Michigan

Statement of Activities Component Units For the Year Ended December 31, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets				
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Road Commission	Ambulance Corporation	University Center	Sportsplex	Total
Road Commission:									
Public Works	\$ 6,309,330	\$ 1,274,765	\$ 5,175,626	\$ -	\$ 141,061	\$ -	\$ -	\$ -	\$ 141,061
Ambulance Corporation:									
Health & Welfare	1,480,027	1,078,909	-	-	-	(401,118)	-	-	(401,118)
University Center:									
Recreation and Culture	616,955	-	208,894	-	-	-	(408,061)	-	(408,061)
Sportsplex:									
Recreation and Culture	1,561,916	514,123	2,840	-	-	-	-	(1,044,953)	(1,044,953)
Total Component Units	<u>\$ 9,968,228</u>	<u>\$ 2,867,797</u>	<u>\$ 5,387,360</u>	<u>\$ -</u>	<u>141,061</u>	<u>(401,118)</u>	<u>(408,061)</u>	<u>(1,044,953)</u>	<u>(1,713,071)</u>
General Revenues and Transfers:									
Property Tax					-	440,643	613,821	1,189,887	2,244,351
Investment Earnings					126,280	3,263	14,376	27,489	171,408
Other					19,841	-	36,310	487	56,638
Operating Transfers					-	-	(231,238)	(596,525)	(827,763)
Total General Revenues and Transfers					<u>146,121</u>	<u>443,906</u>	<u>433,269</u>	<u>621,338</u>	<u>1,644,634</u>
Changes in Net Assets					287,182	42,788	25,208	(423,615)	(68,437)
Net Assets - Beginning					<u>17,273,356</u>	<u>622,542</u>	<u>596,181</u>	<u>1,082,193</u>	<u>19,574,272</u>
Net Assets - Ending					<u>\$ 17,560,538</u>	<u>\$ 665,330</u>	<u>\$ 621,389</u>	<u>\$ 658,578</u>	<u>\$ 19,505,835</u>

See accompanying notes to financial statements.

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Otsego County was organized in 1840 and covers an area of approximately 527 square miles divided into nine townships, one village, and one city. The county seat is located in the City of Gaylord. The County of Otsego operates under an elected board of commissioners (nine members) with an appointed county coordinator who assists with day-to-day operations. The County of Otsego provides services to its more than 23,300 residents in many areas including law enforcement, administration of justice, community enrichment, and development, and human services.

The accounting policies of the County of Otsego conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Otsego County.

A – Reporting Entity:

The accompanying financial statements present the government and its component units; entities for which the government is considered to be financially accountable. Although blended component units are legally separate entities, in substance, they are part of the government's operations. The criteria established by the Governmental Accounting Standards Board (GASB) for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading, if data were not included. The component unit total is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government (see discussion below for description of each component unit). Each discretely presented component unit is reported separately in the financial statements.

Blended Component Units

Building Authority – The Otsego County Building Authority is governed by a three member board appointed by the county board of commissioners. Although it is legally separate from the County, the Building Authority is reported as if it were part of the primary government because its sole purpose is to finance and construct the County's public buildings. The financial statements of the Otsego County Building Authority are reported in the County's Debt Service Fund and Capital Projects Fund as presented in this report.

Bus System – The Otsego County Bus System is not legally separate but is administered by a three member standing committee of the county board of commissioners. The Bus System Committee may not issue debt and the tax levy is subject to county board of commissioners' approval. The Bus System taxes are levied under the taxing authority of the County, as approved by the county electors, and is included as part of the County's total tax levy as well as reported in the Bus System Fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Commission on Aging – The Otsego County Commission on Aging (Commission) is not legally separate, but is administered by an advisory board of directors (board) with twelve members. Members of the board are selected by the County from nine districts and an additional three at-large members. The Commission may not issue debt and the tax levy is subject to county board of commissioners' approval. The Commission's taxes are levied under the taxing authority of the County, as approved by the county electors, and is included as part of the County's total tax levy as well as reported in the Commission on Aging Fund.

Discretely Presented Component Units

County Road Commission – The Otsego County Road Commission which is established pursuant to the County Road Law (MCL 224.1) is governed by a three member board of county road commissioners elected biannually to serve a six year term. The Road Commission may not issue debt without the County's approval and the tax levy is subject to county board of commissioners' approval. If approval is granted, Road Commission taxes are levied under the taxing authority of the County, as approved by the county electors, and would be included as part of the County's total tax levy as well as reported in the County Road Fund.

Otsego County Sportsplex – The Otsego County Sportsplex, a nonprofit corporation that was established pursuant to the provisions of Public Act 162 of 1982, has an agreement with the County of Otsego to operate and maintain a recreational and sports complex for Otsego County. The sports complex was constructed during 1995 and opened in early 1996. The Sportsplex is operated by a board of directors, which consist of between seven to fifteen members. Members are elected by the affirmative vote of a majority of the directors. The Sportsplex may not issue debt without the County's approval and the tax levy is subject to county board of commissioners' approval. The Sportsplex taxes are levied under the taxing authority of the County, as approved by the County electors and are included as part of the County's total tax levy recorded in the County's Sportsplex Fund. The county board of commissioners also approves the budget and fee charges. Although this is a nonprofit corporation, the activities fit the description of a governmental special revenue fund type and, accordingly, are reported as a special revenue fund in this report.

Otsego County Ambulance Corporation, Inc. – The Otsego County Ambulance Corporation, Inc., a nonprofit corporation which was established pursuant to the provisions of Public Act 327 of 1931, as amended, and Public Act 284 of 1972, has an agreement with the County of Otsego to provide ambulance service in and about the County of Otsego. A nine member board governs the Ambulance Corporation. The Ambulance Corporation may not issue debt without the County's approval and a tax levy is subject to county board of commissioners' approval. If approval is granted, the Ambulance's taxes are levied under the taxing authority of the County, as approved by the county electors, and would be included as part of the County's total tax levy as well as in the Ambulance Fund. All assets are in the name of the County. The activities fit the description of a governmental special revenue fund type and, accordingly, are reported as a special revenue fund in this report.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Otsego County University Center – On December 7, 1999, the electors of the County of Otsego authorized the County Board of Commissioners to levy a tax not to exceed .56 mills (\$.56 per \$1,000) for a period of 20 years to provide the funds required to acquire or construct, furnish, equip and operate the Otsego County University Center (the facility) for use by the residents of the County and the public. On July 1, 2000, the County of Otsego entered into an agreement for operating and maintaining the facility with The University Center at Gaylord (University Center), a Michigan nonprofit corporation organized on November 3, 1989 pursuant to the provisions of Act 162, Public Acts of 1982, as amended. The University Center is governed by an eleven member board of directors whose mission is to facilitate the delivery of quality, state-of-the-art education and training that is responsive to personal growth and business needs throughout Otsego County and Northern Michigan through a consortium of colleges offering degrees, enrichment and skill certification programs. The agreement, which expires December 31, 2020 unless amended, requires the University Center to submit by July 1st annually a proposed budget for the operation of the facility for the subsequent fiscal year beginning January 1st. Prior to September 1st each year, the county board of commissioners shall either approve the final budget as submitted for the operation of the facility or reject the budget setting forth reasons why it was not approved. Once approved, the county board of commissioners shall approve a resolution authorizing the levy of such amount of the millage. The facility's taxes are levied under the taxing authority of the County and are included as part of the County's total tax levy reported in the Otsego County University Center Fund.

Complete financial statements of the individual component units can be obtained from their respective administrative offices or from the County Clerk's Office at the courthouse.

Administrative Offices

Otsego County Bus System
1254 Energy Drive
Gaylord, Michigan 49735

Otsego County Road Commission
Industrial Park, P.O. Box 537
Gaylord, Michigan 49735

Otsego County Sportsplex
1250 Gornick Avenue
Gaylord, Michigan 49735

Otsego County University Center
80 Livingston Boulevard
Gaylord, Michigan 49735

Otsego County Ambulance Corporation, Inc.
100 McLouth, P.O. Box 642
Gaylord, Michigan 49735

Jointly Governed Organizations

46th Circuit Trial Court – Otsego, Crawford, and Kalkaska counties participate jointly in the operation of the 46th Circuit Trial Court. The funding formula approved by the member counties is based on a cost-study. Member counties' percentage of net operating budget for the year 2006 were:

Otsego	44.99 percent
Crawford	28.52 percent
Kalkaska	26.49 percent

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Otsego County pays all expenditures and is reimbursed actual expenditures from Crawford and Kalkaska counties at the percentage listed above.

Northwest Michigan Community Health Agency – Northwest Michigan Community Health Agency provides health service for Otsego County. The counties of Otsego, Antrim, Emmet, and Charlevoix jointly established the agency. The financial operations of the Health Agency are recorded in the records of Charlevoix County. The funding formula approved by the member counties is based pro rata on each unit's population and equalized valuation to the district's total population and valuation. Member counties' percentages of the net operation budget for the year 2006 were:

Otsego	23 percent	Antrim	23 percent
Charlevoix	26 percent	Emmet	28 percent

Otsego County's appropriation and cigarette tax to the Health Agency for the year was \$176,248.

Michigan Technical Education Center (M-TEC) – Kirtland Community College, a community college district established pursuant to the provisions of Public Act 331 of 1996, obtained funding through the Michigan Economic Development Corporation (MEDC) to construct and equip the Michigan Technical Center (M-TEC), and educational facility in the County of Otsego. On December 7, 1999, the electors of the County authorized a tax levy not to exceed .65 mills for a period of twenty years for the purpose of generating funds to operate the facility. The facility provides vocational, technical, job skills, or workforce development programs and services. Pursuant to the operating agreement, Kirtland established an advisory board (which includes representatives of the county) and is to report its preliminary, final and amended M-TEC budgets to the County's board. Financial records for M-TEC are recorded and maintained by the Kirtland Community College and audited separately. Otsego County's tax revenues amounted to \$712,491 for which Otsego appropriated \$724,222 to Kirtland Community College.

The Michigan Technical Education Center (M-TEC) is used in conjunction with and occupied by the University Center established and operated by the University Center of Gaylord, a non-profit corporation.

North Country Community Mental Health – The North Country Community Mental Health consists of the counties of Antrim, Charlevoix, Cheboygan, Emmet, Kalkaska, and Otsego. Financial records for the board are recorded and maintained by the mental health and audited separately.

The funding formula for the community mental health operations and services is in accordance with an agreement approved by each county. The current agreement provides that each county will pay at an agreed upon rate. The 2006 local match for Otsego County was \$94,003.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Fiscal Year End Other Than December 31, 2006

The financial information presented in this report is for the year ended December 31, 2006, except for the following funds:

<u>Fund</u>	<u>Fund Presentation</u>	<u>Fiscal Year End</u>
Commission on Aging	Blended – Special Revenue Fund	September 30, 2006
Bus System	Blended – Enterprise Fund	September 30, 2006

B – Government-Wide and Fund Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C – Measurement Focus, Basis of Accounting and Financial Statement Presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Taxes Receivable – Current or Property Taxes

The County of Otsego property tax is levied on each December 1st and July 1st on the taxable valuation of property (as defined by State statutes) located in the County of Otsego as of the preceding December 31st.

Although the County of Otsego 2005 ad valorem tax is levied and collectible on December 1, 2005 and the 2006 ad valorem tax is levied and collectible on July 1, 2006, it is the County of Otsego's policy to recognize revenue from the current tax levy in the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be paid from the delinquent tax fund within one year.

The 2005 taxable valuation of Otsego County amounted to \$1,122,998,918 on which ad valorem taxes of 2.7001 mills were levied for the County Operating purposes, .3000 mill for Animal Control, 1.0000 mill for Commission on Aging, .1875 mill for Community Center, .0593 mill for County Parks, .2500 for the Bus System, .4000 mill for Library, .4000 for Ambulance, .6464 for M-TEC, .5569 for the University Center, .7860 mill for Sportsplex Construction, and .2948 for Sportsplex Operating (component unit).

The 2005 current tax levied included \$3,032,209 for County Operations, \$336,900 for Animal Control, \$1,122,999 for Commission on Aging, \$210,555 for Community Center, \$66,601 for County Parks, \$280,750 for the Bus System, \$449,200 for the Library, \$449,200 for the Ambulance, \$725,907 for M-TEC, \$625,398 for the University Center, \$882,677 for the Sportsplex Construction, and \$331,060 for Sportsplex Operating. These taxes will be recorded as revenue on County records in and for the year of 2006. An amount equal to 1/3 of the General Fund 2004 levy collected from the winter tax collection was recognized in the Revenue Sharing Reserve Fund. The July 1, 2006 taxable valuation of the County of Otsego totaled \$1,178,509,814 on which ad valorem taxes levied consisted of 2.7001 mills for the General Fund. This amount is recognized as revenue in the General Fund.

The taxes receivable is recorded in the financial statements as taxes receivable-current, with an offsetting credit to deferred revenue based on the 2006 taxable valuation. The Commission on Aging Fund and the Bus System financial statements are for the fiscal year ended September 30, 2006 and accordingly, do not reflect taxes receivable and deferred revenue.

All other revenue items are considered to be available only when cash is received by the government.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The County reports the following major governmental funds:

General Fund

This is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Revenue Sharing Reserve Fund

This Fund accounts for restricted funds that are limited to amounts previously reported as state revenue sharing distributed annually, which can be used to fund governmental operations.

M-Tech

This Fund accounts for the collection and disbursement of a tax levy to operate the Michigan Technical Center (M-Tech), an educational facility.

Housing Commission

This Fund accounts for grant revenue and contributions reserved for the improvement of housing within the County.

Public Improvement

This Fund accounts for earmarked revenue set aside for statutory public improvements.

The County reports the following major proprietary funds:

Delinquent Tax Fund

This fund accounts for the collection of delinquent taxes.

Public Transit

This Fund accounts for the operation of the public transit system.

Additionally, the County reports the following fund types:

Special Revenue Funds

These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Debt Service Funds**

These funds account for the resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

Capital Project Fund

These funds account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

Internal Service Fund

This Fund accounts for buildings and grounds, administrative services, and employee health benefits provided to other departments or agencies of the governmental unit on a cost reimbursement basis.

Agency Funds

Agency Funds are used to account for assets held by the County as an agent for individuals, private organizations, other governments, and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's tax collection function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for tax collections. Operating expenses for proprietary funds include the cost of sales and services, and administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**D - Assets, Liabilities, and Net Assets or Equity:**

Bank Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from all funds and is allocated to each fund based on average cash balance. Deposits are recorded at cost.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st and July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items – Inventories are valued at cost, using the consumption method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Inventories – Primary Government

General Fund – The inventory consists of postage and supplies on hand valued at cost in the amount of \$5,908 at December 31, 2006.

Commission on Aging – The inventory consists of food on hand at September 30, 2006 valued at cost in the amount of \$796.

Airport – The inventory at the airport consists of fuel on hand based on average cost with a value of \$34,412 at December 31, 2006.

Inventories – Component Units

Road Commission – Inventories amounting to \$559,752 are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are recorded at average cost which approximates market.

Sportsplex – Inventory consist of items in the Pro Shop with a value of \$63,720.

Accounts Receivable – Component Unit

Ambulance – The accounts receivable balance is net of allowance for doubtful accounts of \$444,000.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant, and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 years
Bus Operating Facility	12 to 20 years
Shop Equipment	3 to 10 years
Vehicles	3 to 7 years
Office Equipment	3 to 10 years
Other Infrastructure	20 years

Depreciation on Road Commission capital assets is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rate is designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure – Roads	8 to 30 years
Infrastructure – Bridges	12 to 50 years

Compensated Absences (Vacation and Sick Leave)

It is the County's policy to permit employees to accumulate earned but unused sick for the library employees and vacation pay benefits for all of the employees with certain limitations which vary among employee classification. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported only in governmental funds for employee terminations as of year end.

Long-Term Obligations – In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Deferred Revenues – Deferred revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not.

Grants and Other Intergovernmental Revenues – Federal grants and assistance awards for all governmental type funds are recorded as intergovernmental revenue in accordance with the terms of the representative grants.

Interfund Transfers – During the course of normal operations, the County has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. The classification of amounts recorded as subsidies, advances, or equity contributions is determined by County management.

Use of Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

Cost Allocations – The Bus System has a cost allocation plan for all allocated expenses that are approved by the Michigan Department of Transportation, Bureau of Urban, and Public Transportation. These allocated expenses include amounts charged to the program for time spent by accounting personnel in maintaining financial records of the program.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information – Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles.

Budgets and Budgetary Control – The County follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Each December, after receiving input from the individual departments, the Board of Commissioners prepares a proposed operating budget for the fiscal period commencing January 1st and lapses on December 31st. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

- c. Prior to January 1st, the budget is legally enacted through a resolution passed by the Board of Commissioners.
- d. Budgetary control is exercised at the departmental level of the General Fund. Any revisions that alter the total expenditures of any department or fund (i.e., budget amendments) require approval by the Board of Commissioners. Such amendments are made in accordance with the procedures prescribed under Public Act 621 of 1978.
- e. The budget and approved appropriations lapse at the end of the fiscal year.
- f. The County does not record encumbrances in the accounting records during the year as normal practice and, therefore, no outstanding encumbrances exist at year end.

Budgeted amounts are as originally adopted or amended by the Board of Commissioners during the year. Individual amendments were not material in relation to the original appropriations which were amended. The modified accrual basis of accounting is used for budgetary purposes.

The General Fund revenue budget was adopted on the basis of activities or programs financed by the General Fund.

Michigan Public Act 621 of 1978 requires that budgets be adopted for Governmental Funds. U.S. generally accepted accounting principles require that the financial statements present budgetary comparisons for the Governmental Fund Types for which budgets were legally adopted. The original budget adopted for the General fund was modified throughout the year through various budget amendments.

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the department level.

NOTE 3 - DEPOSITS AND INVESTMENTS

At year end, the County's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
Cash and Equivalents – Unrestricted	\$ 4,724,512	\$ 1,955,898	\$ 6,680,410	\$ 1,609,927	\$ 667,175
Total	\$ 4,724,512	\$ 1,955,898	\$ 6,680,410	\$ 1,609,927	\$ 667,175

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

		Primary Government	Fiduciary Funds	Component Units	
Bank Deposits (checking and savings accounts, certificates of deposit)		\$ 6,339,638	\$ 1,609,927	\$ 659,315	
Petty Cash and Cash on Hand		<u>12,555</u>	<u>-</u>	<u>7,860</u>	
Total		<u>\$ 6,352,193</u>	<u>\$ 1,609,927</u>	<u>\$ 667,175</u>	
	Fair Value	Less Than 1	1 – 5	6 – 10	More Than 10
Investments:					
Money Markets	\$ 515,689	\$ 515,689	\$ -	\$ -	\$ -
U.S. Treasury Securities	3,886,388	1,547,318	2,339,070	-	-
Asset Backed Securities	<u>3,072,231</u>	<u>-</u>	<u>-</u>	<u>410,278</u>	<u>2,661,953</u>
Total Investments	<u>\$ 7,474,308</u>	<u>\$ 2,063,007</u>	<u>\$ 2,339,070</u>	<u>\$ 410,278</u>	<u>\$ 2,661,953</u>
	Governmental				
	Activities		\$ 3,340,890		
	Business				
	Activities		2,359,145		
	Trust and Agency		450,000		
	Component Units		<u>1,324,273</u>		
	Total		<u>\$ 7,474,308</u>		

Interest rate risk. The County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The County has no investment policy that would further limit its investment choices.

Custodial credit risk. Investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or securities that are in the possession of an outside party. Of the County's \$7,474,308 in investments all are in the name of the County. Investments are unrated or are not available from the rating agency.

Custodial deposit credit risk. Custodial deposit credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned. State law does not require and the County does not have a policy for custodial deposit credit risk. As of year end, \$7,976,922 of the County's bank balance of \$8,477,422 was exposed to credit risk because it was uninsured and uncollateralized. \$0 was uninsured and collateralized by the pledging financial institution.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)Statutory Authority:

Michigan Law (Public Act 20 of 1943 as amended) authorizes the County to deposit and invest in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Banker's acceptance of United States banks.
- f. Obligations of this State or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligation described in a. through g. if purchased through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

NOTE 4 - RECEIVABLESLoans receivable – Housing Commission Fund (Major Fund)

The amount recorded as loans receivable is long-term mortgage notes in the Housing Commission Fund, consisting of grants and loans made to individuals pursuant to community development block grants received from the State of Michigan. Certain homes are secured with mortgages and grants with liens to qualified applicants. The mortgage interest rates vary from 0 to 35 and the grants with liens are payable upon transfer of title. The receivable is offset with deferred revenue, with revenue recognized on a cash basis when collected. The loans were made for the purpose of repair, renovation, or rehabilitation of residential buildings. At December 31, 2006, the total outstanding loans were \$1,555,456.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the primary government for the current year was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 401,154	\$ -	\$ -	\$ 401,154
Construction in Progress	-	1,238,743	-	1,238,743
Subtotal	401,154	1,238,743	-	1,639,897
<i>Capital assets being depreciated:</i>				
Buildings	12,421,159	105,000	-	12,526,159
Furniture and Fixtures	146,642	-	-	146,642
Equipment:				
Data Handling	1,093,494	14,393	-	1,107,887
Other Equipment	1,736,562	-	-	1,736,562
Commission on Aging	92,741	5,009	-	97,750
Vehicles	1,388,636	50,680	-	1,439,316
Infrastructure	5,143,780	-	-	5,143,780
Subtotal	22,023,014	175,082	-	22,198,096
<i>Less accumulated depreciation for:</i>				
Buildings	(4,882,704)	(467,186)	-	(5,349,890)
Furniture and Fixtures	(142,145)	(3,332)	-	(145,477)
Equipment:				
Data Handling	(847,540)	(98,392)	-	(945,932)
Other Equipment	(828,551)	(61,035)	-	(889,586)
Commission on Aging	(71,838)	(7,507)	-	(79,345)
Vehicles	(1,137,211)	(126,051)	-	(1,263,262)
Infrastructure	(1,840,930)	(257,189)	-	(2,098,119)
Subtotal	(9,750,919)	(1,020,692)	-	(10,771,611)
Net Capital Assets Being Depreciated	12,272,095	(845,610)	-	11,426,485
Governmental Activity Capital Total				
Capital Assets - Net of Depreciation	\$ 12,673,249	\$ 393,133	\$ -	\$ 13,066,382

NOTE 5 - CAPITAL ASSETS (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities:	
Judicial	\$ 9,247
General Government	314,633
Public Safety	115,013
Public Works	341,023
Health and Welfare	7,507
Recreation and Culture	<u>233,269</u>
Total Depreciation – Governmental Activities	<u>\$ 1,020,692</u>

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type Activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 99,998	\$ -	\$ -	\$ 99,998
<i>Capital assets being depreciated:</i>				
Buildings	760,033	-	-	760,033
Vehicles	1,272,886	37,990	(17,123)	1,293,753
Equipment	<u>760,461</u>	<u>-</u>	<u>(196,257)</u>	<u>564,204</u>
Subtotal	<u>2,793,380</u>	<u>37,990</u>	<u>(213,380)</u>	<u>2,617,990</u>
<i>Less accumulated depreciation for:</i>				
Building	(80,226)	(38,002)	-	(118,228)
Vehicles	(1,026,961)	(115,058)	17,123	(1,124,896)
Equipment	<u>(436,560)</u>	<u>(31,361)</u>	<u>196,257</u>	<u>(271,664)</u>
Subtotal	<u>(1,543,747)</u>	<u>(184,421)</u>	<u>213,380</u>	<u>(1,514,788)</u>
Net Capital Assets Being Depreciated	<u>1,249,633</u>	<u>(146,431)</u>	<u>-</u>	<u>1,103,202</u>
Business-type Activities Capital Assets, Net of Depreciation	<u>\$ 1,349,631</u>	<u>\$ (146,431)</u>	<u>\$ -</u>	<u>\$ 1,203,200</u>

Depreciation expense was charged to programs of the primary government as follows:

Business-Type Activities:	
UC Metropolitan Area Network	\$ 12,298
Bus System	<u>172,123</u>
Total Business-Type Activities	<u>\$ 184,421</u>

NOTE 5 - CAPITAL ASSETS (Continued)

A summary of changes in the Road Commission's capital assets are as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<i>Capital assets not being depreciated:</i>				
Land and Improvements	\$ 159,391	\$ 17	\$ -	\$ 159,408
<i>Capital assets being depreciated:</i>				
Buildings	2,999,960	-	-	2,999,960
Road Equipment	4,944,149	381,141	(59,798)	5,265,492
Shop Equipment	92,412	4,302	(1,561)	95,153
Office Equipment	74,382	2,497	-	76,879
Engineer's Equipment	15,846	-	-	15,846
Yard and Storage Equipment	1,800	-	-	1,800
Depletable Assets	4,760	-	-	4,760
Traffic Signals	44,756	-	-	44,756
Infrastructure – Bridges	805,533	50,012	-	855,545
Infrastructure – Roads	<u>24,429,373</u>	<u>2,009,143</u>	<u>-</u>	<u>26,438,516</u>
Subtotal	<u>33,412,971</u>	<u>2,447,095</u>	<u>(61,359)</u>	<u>35,798,707</u>
<i>Less accumulated depreciation:</i>				
Building	(943,035)	(71,114)	-	(1,014,149)
Road Equipment	(3,994,025)	(417,528)	53,921	(4,357,632)
Shop Equipment	(69,385)	(8,280)	1,429	(76,236)
Office Equipment	(65,145)	(3,453)	-	(68,598)
Engineer's Equipment	(15,846)	-	-	(15,846)
Yard and Storage Equipment	(1,800)	-	-	(1,800)
Traffic Signals	(11,141)	(2,984)	-	(14,125)
Infrastructure – Bridges	(181,213)	(30,555)	-	(211,768)
Infrastructure – Roads	<u>(12,756,642)</u>	<u>(1,191,636)</u>	<u>-</u>	<u>(13,948,278)</u>
Subtotal	<u>(18,038,232)</u>	<u>(1,725,550)</u>	<u>55,350</u>	<u>(19,708,432)</u>
Net Capital Assets Being Depreciated	<u>15,374,739</u>	<u>721,545</u>	<u>(6,009)</u>	<u>16,090,275</u>
Total Net Capital Assets	<u>\$ 15,534,130</u>	<u>\$ 721,562</u>	<u>\$ (6,009)</u>	<u>\$ 16,249,683</u>

Depreciation expense was charged entirely to Public Works.

NOTE 5 - CAPITAL ASSETS (Continued)

A summary of changes in the Otsego County Ambulance Corporation's capital assets are as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<i>Capital assets being depreciated:</i>				
Buildings	\$ 725,000	\$ -	\$ -	\$ 725,000
Other Equipment	392,388	-	-	392,388
Vehicles	<u>913,323</u>	<u>16,325</u>	<u>-</u>	<u>929,648</u>
Subtotal	<u>2,030,711</u>	<u>16,325</u>	<u>-</u>	<u>2,047,036</u>
<i>Less accumulated depreciation for:</i>				
Building	(261,000)	(29,000)	-	(290,000)
Other Equipment	(317,416)	(11,939)	-	(329,355)
Vehicles	<u>(705,502)</u>	<u>(100,659)</u>	<u>-</u>	<u>(806,161)</u>
Subtotal	<u>(1,283,918)</u>	<u>(141,598)</u>	<u>-</u>	<u>(1,425,516)</u>
Net Capital Assets Being Depreciated	<u>\$ 746,793</u>	<u>\$ (125,273)</u>	<u>\$ -</u>	<u>\$ 621,520</u>

Depreciation expense was charged entirely to Health and Welfare.

A summary of changes in the Otsego County University Center's capital assets are as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<i>Capital assets being depreciated:</i>				
Buildings	\$ 12,908	\$ -	\$ -	\$ 12,908
Leasehold Improvements	24,854	-	-	24,854
Furniture and Fixtures	198,941	20,660	-	219,601
Data Handling Equipment	<u>427,249</u>	<u>27,027</u>	<u>-</u>	<u>454,276</u>
Subtotal	<u>663,952</u>	<u>47,687</u>	<u>-</u>	<u>711,639</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(1,032)	(516)	-	(1,548)
Leasehold Improvements	(16,589)	(8,264)	-	(24,853)
Furniture and Fixtures	(128,628)	(35,070)	-	(163,698)
Data Handling Equipment	<u>(352,558)</u>	<u>(51,221)</u>	<u>-</u>	<u>(403,779)</u>
Subtotal	<u>(498,807)</u>	<u>(95,071)</u>	<u>-</u>	<u>(593,878)</u>
Net Capital Assets Being Depreciated	<u>\$ 165,145</u>	<u>\$ (47,384)</u>	<u>\$ -</u>	<u>\$ 117,761</u>

Depreciation expense was charged entirely to Recreation and Culture.

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The County of Otsego, Michigan reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds, proprietary funds, and fiduciary funds. Interfund transactions resulting in interfund Receivables and Payable are as follows:

		DUE TO OTHER FUNDS			
		Airport	General Fund	Public Improvement	Total
DUE FROM OTHER FUNDS	Component Units	\$ -	\$ 12,349	\$ -	\$ 12,349
	Nonmajor Governmental Funds	6,993	169,498	216,030	392,521
	Total	\$ 6,993	\$ 181,847	\$ 216,030	\$ 404,870
		ADVANCES TO OTHER FUNDS			
		General Fund	Public Improvement	Delinquent Tax Fund	Total
ADVANCES FROM OTHER FUNDS	Public Transit	\$ -	\$ 26,704	\$ -	26,704
	Ambulance Funds	23,515	63,049	55,000	141,564
	Total	\$ 23,515	\$ 89,753	\$ 55,000	\$ 168,268

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (Continued)**Interfund Transfers**

		TRANSFERS (OUT)						
TRANSFERS IN		General Fund	Housing Fund	Revenue Sharing Reserve	Nonmajor Governmental	Delinquent Tax	Component Units	Total
	General Fund	\$ -	\$ -	\$ 408,204	\$ 395,505	\$ 160,023	\$ -	\$ 963,732
	Nonmajor Government	1,030,256	250	-	-	-	827,763	1,858,269
	Delinquent Tax	75,000	-	-	-	-	-	75,000
	Nonmajor Proprietary	<u>4,500</u>	<u>-</u>	<u>-</u>	<u>4,500</u>	<u>-</u>	<u>-</u>	<u>9,000</u>
	Total	<u>\$ 1,109,756</u>	<u>\$ 250</u>	<u>\$ 408,204</u>	<u>\$ 400,005</u>	<u>\$ 160,023</u>	<u>\$ 827,763</u>	<u>\$ 2,906,001</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 7 - LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government.

The long-term debt and other long-term obligations of the County's governmental funds, and the changes therein, may be summarized as follows:

	Balance 01/01/06	Increases	Decreases	Balance 12/31/06	Due Within One Year
<u>LONG-TERM DEBT</u>					
Otsego County Building Authority Series 1991 Bonds, (Alpine Center Project) maturing serially through 2012 in annual amounts ranging from \$15,000 to \$95,000 and at interest rates ranging from 7% to 9.5%.	\$ 515,000	\$ -	\$ 55,000	\$ 460,000	\$ 55,000
Otsego County Building Authority Series 1994-1 Bonds, maturing serially through 2014 in annual amounts ranging from \$20,000 to \$60,000 and at interest rates ranging from 4.1% to 6.3%.	405,000	-	30,000	375,000	35,000
Otsego County Building Authority Series 1995 Bonds, maturing serially through 2006 in annual amounts ranging from \$290,000 to \$565,000 and at interest rates ranging from 4.7% to 5.5%.	565,000	-	565,000	-	-
Otsego County Building Authority Series 2000 Bonds, maturing serially through 2020 in annual amounts ranging from \$75,000 to \$250,000 and at interest rates from 5% to 5.5%.	2,550,000	-	100,000	2,450,000	125,000
Vested Employee Benefits Payable	<u>123,822</u>	<u>-</u>	<u>4,840</u>	<u>118,982</u>	<u>-</u>
Total Long-Term Debt	<u>\$ 4,158,822</u>	<u>\$ -</u>	<u>\$ 754,840</u>	<u>\$ 3,403,982</u>	<u>\$ 215,000</u>

NOTE 7 - LONG-TERM DEBT (Continued)

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year End December 31</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 215,000	\$ 178,603
2008	225,000	166,130
2009	245,000	152,455
2010	255,000	137,865
2011	285,000	122,158
2012-2016	1,160,000	392,274
2017-2020	<u>900,000</u>	<u>102,357</u>
Total	<u>\$ 3,285,000</u>	<u>\$ 1,251,842</u>

The long-term debt of the Road Commission is summarized as follows:

	<u>Balance 01/01/06</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/06</u>	<u>Due Within One Year</u>
General Obligation:					
Equipment Installment Loan	\$ 123,302	\$ 177,240	\$ 123,586	\$ 176,956	\$ 105,063
Compensated Absences (1)	<u>72,277</u>	<u>497</u>	<u>-</u>	<u>72,774</u>	<u>-</u>
Total	<u>\$ 195,579</u>	<u>\$ 177,737</u>	<u>\$ 123,586</u>	<u>\$ 249,730</u>	<u>\$ 105,063</u>

(1) The change in compensated absences is shown as a net addition.

The Road Commission entered into an installment loan with Fifth Third Bank for the purchase of three International trucks on July 6, 2004. The initial debt was \$228,073 with interest accruing at 2.92%. The equipment installment agreement requires 36 payments of \$6,624.60 per month with the final payment due on July 6, 2007.

The Road commission entered into an installment loan with First Federal of Northern Michigan for the purchase of two International 5500I plow trucks on March 1, 2006. The initial debt was \$177,240 with interest accruing at 4.29%. The equipment installment agreement requires 36 payments of \$5,256 per month with the final payment due on March 1, 2009.

<u>Annual Debt Service Requirements:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 105,063	\$ 4,446	\$ 109,509
2008	61,190	1,880	63,070
2009	<u>10,703</u>	<u>56</u>	<u>10,759</u>
Totals	<u>\$ 176,956</u>	<u>\$ 6,382</u>	<u>\$ 183,338</u>

NOTE 8 - COMPENSATED ABSENCESPrimary Government

Substantially all County employees are entitled to certain vacation and sick pay benefits that accrue and vest under various parameters. The amounts depend upon which labor contract the employee is subject to or upon which department or fund the employee is within. Accrued benefits for all governmental fund types are reported as long-term debt.

A summary of vested benefits payable at December 31, 2006 is as follows:

Vacation	\$ 98,132
Sick Leave	<u>20,850</u>
TOTALS	<u>\$ 118,982</u>

Vested Employee Benefits Payable – Bus System (Enterprise Fund)

Vacation leave is earned in varying amounts depending on the number of years of service of an employee and is made available on the anniversary date of the employee.

Sick leave is earned at the beginning of the calendar year at a rate of 52 1/2 or 56 hours per full-time employee per year. Any unused sick leave is paid to the employee on the closest pay period to Christmas. There is no carry over of sick leave hours allowed.

Upon termination, an employee receives payment for the balance of any unused vacation leave which begins to accrue on the employee's anniversary date. Employees can carry over a maximum of 40 hours of vacation leave to the next year. Unused sick leave is paid upon termination. Therefore, accumulated vacation and sick leave at September 30, 2006 will be paid from current financial resources and is not recorded as long-term liability.

Road Commission – Component Unit

Substantially all employees of the Road Commission can accumulate vacation hours. The accumulated hours at December 31, 2006 at current wage rates amounted to \$72,774 and is reflected in the Long-Term Debt. Sick leave is not vested and accordingly is not accrued.

NOTE 9 - OPERATING LEASESPrimary Government Operating Leases

Commission on Aging – The Commission on Aging has an operating lease with Ricoh for the use of a copier. The Monthly payment is \$388, with the lease agreement effective through April, 2008. Additionally, the Commission has an operating lease with Pitney Bowes for a mailing system. The quarterly payment is \$174, effective through March 2009. Future lease obligations for the copier are as follows:

<u>Year Ending September 30</u>	<u>Copier</u>	<u>Mailing System</u>
2007	\$ 4,656	\$ 696
2008	4,656	696
2009	1,164	348

The Commission on Aging entered into a sublease with Northwest Michigan Community Health Agency to rent the space commonly known as “Otsego Haus.” The sublease terms beginning January 1, 2001 calls for monthly payments of \$1,620 or \$19,440 annually, and is renewable on a month to month basis.

The Commission on Aging leases office and activity space from Alpine Alten Zimmer. The rent payment totals \$10,200 per year, and is renewable annually.

The Commission on Aging leases the Elkland Senior Center for both programmatic and social events. The rent payments total \$6,600 per year, and is renewable annually.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMSPrimary GovernmentDescription of Plan and Plan Assets

The County is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement and service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. The service requirement for General Non-Union, Sheriff Non-Union, General-Local 1534 and Elected Officials is computed using credited service at the time of termination of membership multiplied by the sum of 2% times the final average compensation (FAC). The service requirement for General-Local 214 is computed using credited service at the time of termination of membership multiplied by the sum of 2.25% of (FAC), with a maximum benefit of 80% of FAC. The service requirement for Elected and Appointed Supervisors, 46th Trial Court and the Sheriff-Union is computed using credited service at the time of termination of membership multiplied by the sum of 2.5% of (FAC), with a maximum benefit of 80% of FAC. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2005.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

MERS was organized pursuant to Section 12a of Public Act 156 of 1851; MCL 46.12 (a), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917-9755.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the County's competitive bargaining unit and personnel policy, which require employees to contribute to the plan. The County is required to contribute at an actuarially determined rate.

Annual Pension Cost

During the calendar year ended December 31, 2006, the County's contributions totaled \$727,328 and the employee contributions totaled \$0; these contributions are made in accordance with the contribution requirement determined by an actuarial valuation of the plan as of December 31, 2004, and personnel agreement. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his project benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% plus a percentage based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three year trend information as of December 31st is as follows:

	2003	2004	2005
Actuarial Value of Assets	\$ 8,862,940	\$ 9,846,623	\$ 10,723,733
Actuarial Accrued Liability	13,282,225	14,272,389	15,402,046
Unfunded AAL	4,419,285	4,425,766	4,678,313
Funded Ratio	67%	69%	70%
Covered Payroll	5,579,432	5,370,888	5,323,075
UAAL as a Percentage of Covered Payroll	79%	82%	88%

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2003	\$ 680,432	100%	0
2004	726,048	100%	0
2005	833,027	100%	0

Road Commission – Component UnitDescription of Plan and Plan Assets

The Otsego County Road Commission participates in a defined benefit retirement plan administered by the Municipal Employee's Retirement System (MERS). The plan covers substantially all full-time employees.

The Municipal Employees Retirement System of Michigan (MERS) is a multiple-employer statewide public employee retirement plan created by the State of Michigan to provide retirement, survivor and disability in the most efficient and effective manner possible. As such, MERS is a non-profit entity qualified under section 401 (a) of the Internal Revenue Code, which has the responsibility of administering the law in accordance with the expressed intent of the Legislature and bears a fiduciary obligation to the State of Michigan, the payers and the public employees who are its beneficiaries.

The passage of HB-5525/Act No. 220, with enactment on May 28, 1996, allowed the members of MERS to vote on and determine if MERS should become an independent public corporation. The vote resulted in approval to become independent of State control and MERS began to operate as an independent public corporation effective August 15, 1996. MERS issues a financial report available to the public that includes financial statements and required supplementary information for the system. A copy of the report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

All full-time Road Commission employees and Commissioners are eligible to participate in the system. Benefits vest after ten years of service. Employees who retire at or after age 60 with 10 years credited service are entitled to an annual retirement benefit, payable monthly for life in an amount equal to 2.0 percent of the member's five-year final average compensation. The system also provides death and disability benefits which are established by State Statute.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)Contributions Required and Contributions Made

MERS funding policy provide for periodic employer contributions are actuarially determined rates that, expressed as percentage of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2006 were determined using the entry age normal actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years. The following table provides a schedule of contribution amounts and percentages for recent years.

Actuarial Accrued Liability

The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 2005. Significant actuarial assumptions used in determining the investment of present and future assets of 8.0%, (b) projected salary increase of 4.5% per year compounded annually, attributable to inflation, and on age, attributable to seniority/merit.

All entries are based on the actuarial methods and assumptions that were used in the December 31, 2005 actuarial valuation to determine the annual employer contribution amounts. The entry age normal actuarial method used to determine the entries at disclosure.

GABS 25 INFORMATION (as of 12/31/05)

Actuarial Accrued Liability:

Retirees and beneficiaries currently receiving benefits	\$ 3,233,801
Terminated employees not yet receiving benefits	71,892
Current Employees:	
Accumulated employees contributions including allocated investment income	71,443
Employer financed	<u>4,045,635</u>
Total actuarial accrued liability	7,422,771
Net assets available for benefits, at actuarial value (Market value is \$5,774,850)	<u>5,931,141</u>
Unfunded (over funded) actuarial accrued liability	<u>\$ 1,491,630</u>

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

GABS 27 INFORMATION (as of 12/31/05)

Fiscal year beginning	January 1, 2007
Annual required contribution (ARC)	\$ 215,640
Amortization factor used	0.053632

Annual Pension Cost

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2003	\$ 195,468	100%	0
2004	216,904	100%	0
2005	215,640	100%	0

The Road Commission was required to contribute \$220,284 for the year ended December 31, 2006. Payments were based on contribution calculation made by MERS.

Aggregated Accrued Liabilities – Comparative Schedule

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Actuarial Value of Assets	\$ 5,493,694	\$ 5,706,795	\$ 5,931,141
Actuarial Accrued Liability	6,783,459	7,209,588	7,422,771
Unfunded AAL	1,289,765	1,502,793	1,491,630
Funded Ratio	81%	79%	80%
Covered Payroll	1,568,776	1,639,489	1,637,342
UAAL as a Percentage of Covered Payroll	82%	92%	91%

For actuarial valuation purposes, the actuarial value of assets is determined on the basis of a calculation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value.

Actuarial assumptions for MERS valuations were revised for the 1993, 1997, 2000, and 2004 valuations.

NOTE 11 - POST EMPLOYMENT BENEFITSPrimary GovernmentRetiree Health Coverage Summary as of Plan Year 2006

MERS Division	Pre 65	Post 65
1 - Non Union	Access only for retiree and spouse if covered at time of retirement - must pay illustrated rate	County pays 95% of illustrated rate for retiree only, retiree pays 5%. If spouse was covered at time of retirement and continued to pay illustrative rate until age 65, they can continue coverage with payment of illustrated rate.
10 - Teamsters Bus	Access only - must pay illustrative rate	Access only - must pay illustrative rate
10 - Teamsters Clerical	Access only - retiree only - must pay illustrative rate *Would transfer to surviving spouse upon death of the employee if the retiree elects the death after retirement surviving spouse benefit	County pays 95% of illustrated rates for retiree only, retiree pays 5%. *Would transfer to surviving spouse upon death of the employee if the retiree elects the death after retirement surviving spouse benefit
11 - AFSCME	Access only - retiree only - must pay illustrative rate *Would transfer to surviving spouse upon death of the employee if the retiree elects the death after retirement surviving spouse benefit	County pays illustrated rate for retiree only. *Would transfer to surviving spouse upon death of the employee if the retiree elects the death after retirement surviving spouse benefit
13 - Department Heads/Elected Officials	Access only for retiree and spouse if covered at time of retirement - must pay illustrated rate. The County will pay \$250.00 towards the monthly illustrated rate from age 62-65 for a maximum of 3 years for department heads.	County pays 95% illustrated rates for retiree only, retiree pays 5%. If spouse was covered at time of retirement and continued to pay illustrative rate until age 65, they can continue coverage with payment of illustrated rate.
20 - Sheriff Union	Access only for retiree and spouse if covered at time of retirement - must pay illustrated rate. The County will pay \$250.00 towards the monthly illustrated rate until the retiree becomes Medicare eligible.	None

**Retirees are only eligible for our retiree healthcare if they retire from the county under our MERS provisions and are enrolled in our health plan at time of retirement. If they drop coverage for any reason after retirement they can not be reinstated.

**All eligible retirees move into the retiree suffix which covers medical and rx only. Dental and vision coverage is not offered in the retiree suffix.

**Retiree coverage levels are evaluated annually. For 2007, Pre-65: BCBS PPO3, Pharmacare \$15/35/55, Post-65: BCBS Supplemental, Pharmacare \$15/35/55

During 2006 23 retirees were eligible for post-employment health care benefits at a cost of \$106,414.

NOTE 11 - POST EMPLOYMENT BENEFITS (Continued)Component Unit

In addition to the pension benefits described in Note 10, the County Road Commission provides post retirement health care benefits, payment of Blue Cross health premiums on a pay as you go basis, to 25 people who have retired from the Road Commission. The premiums for the retirees amounted to \$246,764 for the year ended December 31, 2006.

NOTE 12 - DEFERRED COMPENSATION PLANPrimary Government

Otsego County offers all employees a deferred compensation plan created in accordance with the Internal Revenue Code (IRC), Section 457. Effective January 1, 1997, the assets of the plan were held in a trust, custodial account or annuity contract describe in IRC Section 457(g) for the exclusive benefit for the participants (employees) and their beneficiaries. The custodial account is held by the custodian for the exclusive benefit of the participants and beneficiaries of these Section 457 plans and the assets may not be diverted to any other use. The administrator (Nationwide Retirement Solutions) is an agent of the employer. The Administrator provides direction to the custodian, from time to time, regarding the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with provisions of GASB Statement No. 32, plan balances and activities are not reflected in the County's financial statements.

Commission on Aging

The Otsego County Commission on Aging offers its employees a deferred compensation plan created in accordance with IRC Section 457. The plan, available to all employees, permits them to defer a portion of their current earnings until the employee's termination, retirement, death, or unforeseeable emergency.

The Commission's liability to each participant is equal to the participant's deferred compensation adjusted by an amount equal to the investment performance in a related assets account. Investments are managed by a trustee, and investment decisions are made by individual employees. The Commission, through Otsego County, provides the duty of due care that would be required of an ordinary prudent investor.

The plan assets totaled \$254,113 as of September 30, 2006.

Component Unit – Road Commission

The Otsego County Road Commission offers it employees a deferred compensation plan created in accordance with IRC Section 457. The plan, available to all Road Commission employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or unforeseeable emergency.

NOTE 12 - DEFERRED COMPENSATION PLAN (Continued)

In the past, the Road Commission was custodian of the assets of the plan and therefore recorded the plan's activity in a trust fund in accordance with Statement No. 2 of the Government Accounting Standards Board (GASB). With the implementation of GASB Statement No. 32 and the Road Commission transferring custodianship of the plan to an independent party, balances for the deferred compensation plan are no longer reported in the financial statements.

Component Unit – Sportsplex

The Otsego County Sportsplex offers its employees a Saving Incentive Match Plan for Employees (SIMPLE plan) Individual Retirement Account (IRA) in accordance with IRC Section 408(p). The plan, available to Sportsplex employees earning at least \$5,000 in annual compensation, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or unforeseeable emergency. The employer matches employee contributions up to 3% of the employees elected salary contribution.

NOTE 13 - RISK MANAGEMENT/SELF-INSURANCE PROGRAMS**Primary Government**

The County is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The government manages its risk exposures and provides certain employee benefits through a combination of self-insurance programs, risk management pools and commercial insurance and excess coverage policies. The following is a summary of these self-insurance programs and risk management pool participation.

The County participates in the Michigan Municipal Risk Management Authority (MMRMA) for general and automobile liability, motor vehicle physical damage, and property damage coverages. The MMRMA was established in January 1980, pursuant to laws of the State of Michigan, which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of the Authority is to provide cooperative and comprehensive risk financing and risk control services. The MMRMA provides risk management, underwriting, reinsurance and claim review and processing services for all member governments pursuant to its charter.

The government makes annual contributions to MMRMA based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the general fund using premiums paid into it by other funds of the government. Such contributions are received by MMRMA are allocated between its general and member retention funds. Economic resources in the MMRMA's general fund are expended for reinsurance coverage, claim payments and certain general and administrative costs, whereas resources in the member retention fund are used for loss payments and defense costs up to the members' self-insurance retention limits along with certain other member-specific costs.

NOTE 13 - RISK MANAGEMENT/SELF-INSURANCE PROGRAMS (Continued)

Accordingly, because contributions to the member retention fund are essentially recognized as revenue by MMRMA to the extent of expenditures, the government records an asset and a related liability, equal to the loss reserves estimated by MMRMA, for its portion of the unexpended member retention fund in the Michigan Municipal Risk Agency Fund. At December 31, 2006, the balance of the County's member retention was \$105,955.

<u>Coverage</u>	<u>Self-Insured Retention</u>
Liability	\$75,000
Vehicle Physical Damage \$1,000 Member Deductible	\$15,000 Per Vehicle \$30,000 Per Occurrence
Property and Crime \$1,000 Deductible Per Occurrence	10% of the Next \$100,000
Employee Benefits	Commercial Insurance Provider

Workers' Compensation

The County is a member of the Michigan Counties Workers' Compensation Fund. Full statutory coverage for workers' disability compensation and employers' liability is guaranteed by the fund for Michigan operations through authority granted by the State of Michigan under Chapter 6, Section 418.611, Paragraph (2) of the Workers' Disability Compensation Act of 1969, as amended.

At December 31, 2006 there were no claims that exceeded insurance coverage. The County had no significant reduction in insurance coverage from previous years.

Bus System – The Bus System is included in the County's insurance policies.

Commission on Aging – The Commission on Aging has insurance coverage provided by independent insurance companies for property, general liability, fire, workers' compensation and employee bond coverage. The Commission on Aging liability is normally limited to the deductible.

Component Unit – Road Commission

Otsego County Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool (Pool) established pursuant to the laws of the State of Michigan, which authorizes contracts between municipal corporations (interlocal agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

NOTE 13 - RISK MANAGEMENT/SELF-INSURANCE PROGRAMS (Continued)

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protections, claims administration and risk management, and loss control services pursuant to Public Act 138 of 1982.

The Otsego County Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also self-insured for workers' compensation and is a member of the County Road Association Self-Insurance Fund.

At December 31, 2006, there were no claims that exceeded insurance coverage. The Road Commission did not have any significant reduction in insurance coverage from previous years.

Component Unit – Ambulance Corporation

The Ambulance Corporation is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Ambulance's general liability, property, and vehicle insurance is included in the County's plan. Additional vehicle insurance, health insurance, and workers' compensation is obtained through commercial insurance providers.

At December 31, 2006, there were no claims that exceeded insurance coverage. The Ambulance Corporation had no significant reduction in insurance coverage from previous years.

Component Unit – Sportsplex

The Sportsplex is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Sportsplex's general liability and property insurance is included in the County's plan. Health insurance and workers' compensation is obtained through commercial insurance providers. At December 31, 2006, there were no claims that exceeded insurance coverage. The Sportsplex had no significant reduction in insurance coverage from previous years.

NOTE 14 - CONTINGENT LIABILITIES

The County has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the County. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the County at December 31, 2006.

Litigation – On November 19, 2002, the 46th Circuit Trial Court filed suit against Crawford and Kalkaska County, with Otsego County later being named as third-party defendant. In July of 2006, the Michigan State Supreme Court ruled in favor of Crawford and Kalkaska and remanded the case back to the Appeals Court to reconsider the responsibility of funding the Trial Court’s legal fees. The immediate outstanding liability to Otsego County will be the amount of attorney fees awarded to those representing the court through this litigation. It is believed that the gross amount of fees that have accumulated since the beginning is between \$1.5 and \$2 million; however, the portion attributable to Otsego County has not been determined.

NOTE 15 - STATE EQUIPMENT PURCHASE ADVANCE

Component Unit – Road Commission

State equipment purchase advance is determined by a formula applied to the book value of equipment of the previous fiscal year. This amount is adjusted each fiscal year in accordance with the formula and would be refunded to the State Department of Transportation upon termination of the State Highway Maintenance Contract.

NOTE 16 - LEASES – COMPONENT UNIT

Capital Leases – The County leases three ambulances and equipment under capital leases with yearly lease payments of \$76,800, including an interest rate of 1% to 6%. The leases qualify as capital leases for accounting purposes and therefore have been recorded at the present value of future minimum lease payments as of the inception date.

The future minimum lease obligations and the net present values are as follows:

2007	\$	63,810
2008		31,425
2009		<u>1,305</u>
Total minimum lease payments		96,540
Less amount representing interest		<u>(8,799)</u>
Present value of minimum lease payment	\$	<u>87,741</u>

NOTE 17 - DEFICIT FUND EQUITY BALANCES:

A fund equity deficit existed in the following funds as indicated:

Courthouse Restoration	\$	342,521
Jail Study		6,657

The County plans to recover these deficits with future fee increases and transfers from governmental funds.

NOTE 18 - PRIOR PERIOD ADJUSTMENT:

Transfers from court restoration building to the public improvement in the amount of \$338,996 were not recorded in prior years. The prior period adjustment will affect the beginning fund balances of those funds as follows:

	<u>Public Improvements</u>	<u>Court Restoration Building</u>
Beginning Balance	\$ 1,078,344	\$ (60,969)
Prior Period Adjustment	<u>338,996</u>	<u>(338,996)</u>
Restricted Beginning Fund Balance	<u>\$ 1,413,340</u>	<u>(399,965)</u>

Required Supplementary Information

County of Otsego, Michigan

Required Supplementary Information Budgetary Comparison Schedule General Fund For the Year Ended December 31, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes and Penalties	\$ 4,500,804	\$ 4,500,804	\$ 4,630,702	\$ 129,898
Licenses and Permits	43,300	38,800	38,742	(58)
Federal Grants	316,542	505,768	668,867	163,099
State Grants	995,812	1,113,533	962,776	(150,757)
Local Contributions	2,115,819	2,225,651	1,708,366	(517,285)
Charges for Services	1,181,080	1,172,780	1,105,875	(66,905)
Fines & Forfeits	24,400	24,400	23,325	(1,075)
Interest & Rentals	60,000	60,000	76,476	16,476
Other Revenues	98,863	73,837	206,138	132,301
TOTAL REVENUES	9,336,620	9,715,573	9,421,267	(294,306)
EXPENDITURES:				
Legislative:				
Board of Commissioners	208,166	208,166	194,014	14,152
Judicial:				
46th Trial Court	2,705,666	2,152,116	1,994,872	157,244
Circuit Court	252,216	653,266	643,095	10,171
District Court	-	26,000	25,160	840
Court Grants	54,956	54,956	42,568	12,388
Friend of the Court	839,700	949,700	973,881	(24,181)
Jury Commission	11,100	11,100	5,720	5,380
Probate Court	327,003	331,835	288,582	43,253
Family Counseling	1,092	6,592	6,556	36
Total judicial	4,191,733	4,185,565	3,980,434	205,131
General Government:				
Administrative Services	238,359	238,359	238,359	-
Building & Grounds	330,568	354,592	353,366	1,226
Clerk and Register of Deeds	325,953	325,953	317,556	8,397
Audit Services	45,000	45,000	40,000	5,000
IT Department	77,260	70,810	55,793	15,017
Equalization	244,478	248,478	235,649	12,829
Treasurer	136,942	136,942	128,666	8,276
Cooperative Extension	84,281	85,781	68,341	17,440
Elections	26,300	39,428	37,247	2,181
Prosecuting Attorney	513,247	522,319	516,706	5,613
Surveyor	200	200	-	200
Soil Conservation	4,000	4,000	-	4,000
Survey and Remonumentation	30,000	55,448	55,448	-
Total general government	2,056,588	2,127,310	2,047,131	80,179
Public Safety:				
Sheriff	815,453	815,453	790,597	24,856
Civil Division	52,973	52,973	36,496	16,477
SANE	10,000	10,000	10,000	-
Justice Training	6,200	6,200	3,592	2,608
Marine Safety	-	12,235	3,674	8,561
Motorcycle Safety Education	40,918	64,844	57,993	6,851
Secondary Road Patrol	71,220	71,220	46,854	24,366
Jail	892,218	924,658	901,477	23,181
Emergency Services	52,333	74,897	68,448	6,449
Total public safety	1,941,315	2,032,480	1,919,131	113,349

County of Otsego, Michigan

Required Supplementary Information Budgetary Comparison Schedule General Fund For the Year Ended December 31, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Public Works:				
Drains	2,500	3,250	3,250	-
Total public works	2,500	3,250	3,250	-
Health And Welfare:				
Communicable Diseases	500	500	500	-
Medical Examiner	80,280	81,780	81,773	7
District Health	176,248	176,248	176,248	-
Mental Health	94,003	94,003	94,003	-
Veterans' Burial	8,000	8,000	6,740	1,260
Veterans' Affairs	24,584	23,110	20,476	2,634
Substance Abuse	67,766	83,742	83,656	86
Total health and welfare	451,381	467,383	463,396	3,987
Community and Economic Development:				
Planning and Zoning	97,965	56,804	52,203	4,601
Link Michigan	1,000	1,000	1,000	-
Total community and economic development	98,965	57,804	53,203	4,601
Other Expenditures:				
Appropriations	-	100	165	(65)
Bonds and Insurance	444,150	265,658	265,494	164
Retiree Insurance	125,000	125,000	94,093	30,907
Other	127,600	46,218	44,953	1,265
Total other expenditures	696,750	436,976	404,705	32,271
TOTAL EXPENDITURES	9,647,398	9,518,934	9,065,264	453,670
EXCESS OF REVENUES OVER EXPENDITURES	(310,778)	196,639	356,003	159,364
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	810,778	913,117	963,732	50,615
Operating Transfers Out	(500,000)	(1,109,756)	(1,109,756)	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ -	209,979	\$ 209,979
FUND BALANCES, JANUARY 1			245,646	
FUND BALANCES, DECEMBER 31			\$ 455,625	

County of Otsego, Michigan

Required Supplementary Information Budgetary Comparison Schedule M-TEC Fund For the Year Ended December 31, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 692,970	\$ 725,000	\$ 712,491	\$ (12,509)
TOTAL REVENUES	692,970	725,000	712,491	(12,509)
EXPENDITURES:				
Community/Economic Development	692,970	725,000	724,222	778
TOTAL EXPENDITURES	692,970	725,000	724,222	778
EXCESS OF REVENUES (EXPENDITURES)	\$ -	\$ -	(11,731)	\$ (11,731)
FUND BALANCE, JANUARY 1			11,774	
FUND BALANCE, DECEMBER 31			\$ 43	

Required Supplementary Information
Budgetary Comparison Schedule
Housing Commission Fund
For the Year Ended December 31, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Federal Sources	\$ -	\$ -	\$ 61,670	\$ 61,670
State Sources	192,500	192,500	-	(192,500)
Local Sources	80,000	59,577	38,526	(21,051)
Interest and Rentals	7,000	6,712	12,478	5,766
Other Revenues	67,086	102,770	115,763	12,993
TOTAL REVENUES	346,586	361,559	228,437	(133,122)
EXPENDITURES:				
Community and Economic Development	285,779	501,083	385,919	115,164
TOTAL EXPENDITURES	285,779	501,083	385,919	115,164
EXCESS OF REVENUES (EXPENDITURES)	60,807	(139,524)	(157,482)	(17,958)
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	105,465	309,512	-	(309,512)
Operating Transfers Out	(77,665)	(327,955)	(250)	327,705
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ 88,607	\$ (157,967)	(157,732)	\$ 235
FUND BALANCE, JANUARY 1			292,443	
FUND BALANCE, DECEMBER 31			\$ 134,711	

Required Supplementary Information
Budgetary Comparison Schedule
Revenue Sharing Reserve Fund
For the Year Ended December 31, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 1,462,159	\$ 1,462,159	\$ 1,462,159	\$ -
Interest & Rentals	-	-	60,589	60,589
 TOTAL REVENUES	 1,462,159	 1,462,159	 1,522,748	 60,589
OTHER FINANCING SOURCES (USES):				
Operating Transfers Out	(407,809)	(408,204)	(408,204)	-
 EXCESS (DEFICIENCY) OF REVENUES OVER OTHER FINANCING USES	 \$ 1,054,350	 \$ 1,053,955	 1,114,544	 \$ 60,589
 FUND BALANCE, JANUARY 1			 2,281,600	
 FUND BALANCE, DECEMBER 31			 \$ 3,396,144	

Required Supplementary Information
Budgetary Comparison Schedule
Public Improvement Fund
For the Year Ended December 31, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Interest and Rentals	\$ 50,000	\$ 50,000	\$ 52,913	\$ 2,913
Other Revenues	-	70,000	75,932	5,932
TOTAL REVENUES	50,000	120,000	128,845	8,845
EXPENDITURES:				
Capital Outlay	-	105,710	105,700	10
TOTAL EXPENDITURES	-	105,710	105,700	10
EXCESS OF REVENUES (EXPENDITURES)	50,000	14,290	23,145	8,855
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	35,000	35,000	-	(35,000)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ 85,000	\$ 49,290	23,145	\$ (26,145)
FUND BALANCE, JANUARY 1			1,078,344	
Prior Period Adjustment			338,996	
FUND BALANCE, DECEMBER 31			\$ 1,440,485	

Other Supplementary Information

County of Otsego, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2006

Special Revenue Funds								
	Parks & Recreation	Friend of the Court	Animal Control	Animal Control Forfeited Funds	Gypsy Moth Control	Building Department	Register of Deeds Automation Fund	Budget Stabilization Fund
ASSETS:								
Cash and Equivalents	\$ 51,846	\$ 21,846	\$ 267,545	\$ 19,511	\$ 19,145	\$ 171,184	\$ 39,869	\$ 6,781
Investments	99,229	-	-	-	145,682	-	-	300,000
Taxes Receivable	289,527	-	347,432	-	-	-	-	-
Accounts Receivable	-	-	-	-	-	1,123	-	-
Due from Other Funds	-	-	-	-	-	-	-	-
Due from Other Governmental Units	-	82,633	-	-	-	-	-	-
Inventory	-	-	-	-	-	-	-	-
Prepaid Expenditures	-	-	-	-	-	-	-	-
TOTAL ASSETS	\$ 440,602	\$ 104,479	\$ 614,977	\$ 19,511	\$ 164,827	\$ 172,307	\$ 39,869	\$ 306,781
LIABILITIES:								
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts Payable	2,445	2,693	4,178	-	-	4,878	-	-
Due to Other Governmental Units	-	47,838	-	-	-	-	-	-
Accrued Liabilities	2,786	596	1,975	-	-	5,289	-	-
Advances from State	-	-	-	-	-	-	-	-
Deferred Revenues	289,527	-	347,432	-	-	-	-	-
TOTAL LIABILITIES	294,758	51,127	353,585	-	-	10,167	-	-
FUND EQUITY:								
Fund Balances:								
Reserved for Inventory	-	-	-	-	-	-	-	-
Reserved for Schneider Trust	-	-	-	-	-	-	-	-
Reserved for Debt Service	-	-	-	-	-	-	-	-
Reserved for Capital Expenditures	-	-	-	-	-	-	-	-
Unreserved-								
Designated	-	-	-	-	-	-	-	-
Undesignated	145,844	53,352	261,392	19,511	164,827	162,140	39,869	306,781
TOTAL FUND EQUITY	145,844	53,352	261,392	19,511	164,827	162,140	39,869	306,781
TOTAL LIABILITIES AND FUND EQUITY	\$ 440,602	\$ 104,479	\$ 614,977	\$ 19,511	\$ 164,827	\$ 172,307	\$ 39,869	\$ 306,781

County of Otsego, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2006

	Special Revenue Funds							
	Legal Defense	Emergency 911 Funds	Local Officers Training	Drug Law Enforcement Fund	Law Library	Library	Department of Human Services	Child Care Probate
ASSETS:								
Cash and Equivalents	\$ 45,400	\$ 120,949	\$ 11,017	\$ 395	\$ 8,907	\$ 212,744	\$ 56,985	\$ 127,193
Investments	-	236,426	-	-	-	473,163	-	-
Taxes Receivable	-	-	-	-	-	405,338	-	-
Accounts Receivable	-	26,453	-	-	-	-	-	-
Due from Other Funds	-	-	-	-	-	-	-	-
Due from Other Governmental Units	-	27,397	-	-	-	-	-	38,518
Inventory	-	-	-	-	-	-	-	-
Prepaid Expenditures	-	-	-	-	-	-	-	-
TOTAL ASSETS	<u>\$ 45,400</u>	<u>\$ 411,225</u>	<u>\$ 11,017</u>	<u>\$ 395</u>	<u>\$ 8,907</u>	<u>\$ 1,091,245</u>	<u>\$ 56,985</u>	<u>\$ 165,711</u>
LIABILITIES:								
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts Payable	13,186	23,928	343	-	343	28,278	-	-
Due to Other Governmental Units	-	-	-	-	-	-	3,000	39,240
Accrued Liabilities	-	4,513	-	-	-	-	-	-
Advances from State	-	-	-	-	-	-	50,000	-
Deferred Revenues	-	-	-	-	-	405,337	-	-
TOTAL LIABILITIES	<u>13,186</u>	<u>28,441</u>	<u>343</u>	<u>-</u>	<u>343</u>	<u>433,615</u>	<u>53,000</u>	<u>39,240</u>
FUND EQUITY:								
Fund Balances:								
Reserved for Inventory	-	-	-	-	-	-	-	-
Reserved for Schneider Trust	-	-	-	-	-	-	-	-
Reserved for Debt Service	-	-	-	-	-	-	-	-
Reserved for Capital Expenditures	-	-	-	-	-	-	-	-
Unreserved-								
Designated	-	-	-	-	-	-	-	-
Undesignated	32,214	382,784	10,674	395	8,564	657,630	3,985	126,471
TOTAL FUND EQUITY	<u>32,214</u>	<u>382,784</u>	<u>10,674</u>	<u>395</u>	<u>8,564</u>	<u>657,630</u>	<u>3,985</u>	<u>126,471</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 45,400</u>	<u>\$ 411,225</u>	<u>\$ 11,017</u>	<u>\$ 395</u>	<u>\$ 8,907</u>	<u>\$ 1,091,245</u>	<u>\$ 56,985</u>	<u>\$ 165,711</u>

County of Otsego, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2006

	Special Revenue Funds							Debt Service Fund
	Soldiers and Sailors Relief	Veteran's Trust	Commission on Aging 9/30/2006	Airport	Bradford Lake	Equipment Revolving	Jail Study	Debt Service
ASSETS:								
Cash and Equivalents	\$ 9,821	\$ 520	\$ 363,824	\$ 47,528	\$ 19,351	\$ 33,713	\$ 43,343	\$ 92,707
Investments	-	-	-	-	-	-	-	-
Taxes Receivable	-	-	-	-	-	-	-	-
Accounts Receivable	-	-	9,110	11,380	-	-	-	-
Due from Other Funds	-	-	-	6,993	-	-	-	-
Due from Other Governmental Units	-	-	-	-	-	54	-	19,484
Inventory	-	-	796	34,412	-	-	-	-
Prepaid Expenditures	-	-	-	-	-	-	-	-
TOTAL ASSETS	\$ 9,821	\$ 520	\$ 373,730	\$ 100,313	\$ 19,351	\$ 33,767	\$ 43,343	\$ 112,191
LIABILITIES:								
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 50,000	\$ -
Accounts Payable	23	-	-	5,815	-	6,956	-	-
Due to Other Governmental Units	-	-	-	-	-	-	-	-
Accrued Liabilities	-	-	32,365	8,506	-	-	-	-
Advances from State	-	-	-	-	-	-	-	-
Deferred Revenues	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	23	-	32,365	14,321	-	6,956	50,000	-
FUND EQUITY:								
Fund Balances:								
Reserved for Inventory	-	-	796	34,412	-	-	-	-
Reserved for Schneider Trust	-	-	50,860	-	-	-	-	-
Reserved for Debt Service	-	-	-	-	-	-	-	112,191
Reserved for Capital Expenditures	-	-	-	-	-	-	-	-
Unreserved-								
Designated	-	-	10,000	-	-	-	-	-
Undesignated	9,798	520	279,709	51,580	19,351	26,811	(6,657)	-
TOTAL FUND EQUITY	9,798	520	341,365	85,992	19,351	26,811	(6,657)	112,191
TOTAL LIABILITIES AND FUND EQUITY	\$ 9,821	\$ 520	\$ 373,730	\$ 100,313	\$ 19,351	\$ 33,767	\$ 43,343	\$ 112,191

County of Otsego, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2006

Capital Project Funds

	MUNIS Information System	Animal Control Shelter Building	Library Building	Airport Construction	Court Restoration Building	Capital Projects	Total
ASSETS:							
Cash and Equivalents	\$ 14,638	\$ 45,522	\$ 47,512	\$ 11,354	\$ -	\$ 500,000	\$ 2,411,150
Investments	-	-	192,968	87,733	-	-	1,535,201
Taxes Receivable	-	-	-	-	-	-	1,042,297
Accounts Receivable	-	-	-	-	-	-	48,066
Due from Other Funds	-	-	-	-	-	-	6,993
Due from Other Governmental Units	-	-	-	-	-	-	168,086
Inventory	-	-	-	-	-	-	35,208
Prepaid Expenditures	-	-	-	5,398	-	-	5,398
TOTAL ASSETS	<u>\$ 14,638</u>	<u>\$ 45,522</u>	<u>\$ 240,480</u>	<u>\$ 104,485</u>	<u>\$ -</u>	<u>\$ 500,000</u>	<u>\$ 5,252,399</u>
LIABILITIES:							
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ 342,521	\$ -	\$ 392,521
Accounts Payable	-	-	-	1,160	-	-	94,226
Due to Other Governmental Units	-	-	-	-	-	-	90,078
Accrued Liabilities	-	-	-	-	-	-	56,030
Advances from State	-	-	-	-	-	-	50,000
Deferred Revenues	-	-	-	-	-	-	1,042,296
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,160</u>	<u>342,521</u>	<u>-</u>	<u>1,725,151</u>
FUND EQUITY:							
Fund Balances:							
Reserved for Inventory	-	-	-	-	-	-	35,208
Reserved for Schneider Trust	-	-	-	-	-	-	50,860
Reserved for Debt Service	-	-	-	-	-	-	112,191
Reserved for Capital Expenditures	14,638	45,522	240,480	103,325	-	500,000	903,965
Unreserved-							
Designated	-	-	-	-	-	-	10,000
Undesignated	-	-	-	-	(342,521)	-	2,415,024
TOTAL FUND EQUITY	<u>14,638</u>	<u>45,522</u>	<u>240,480</u>	<u>103,325</u>	<u>(342,521)</u>	<u>500,000</u>	<u>3,527,248</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 14,638</u>	<u>\$ 45,522</u>	<u>\$ 240,480</u>	<u>\$ 104,485</u>	<u>\$ -</u>	<u>\$ 500,000</u>	<u>\$ 5,252,399</u>

County of Otsego, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds For the Year Ended December 31, 2006

	Special Revenue Funds							
	Parks & Recreation	Friend of the Court	Animal Control	Animal Control Forfeited Funds	Gypsy Moth Control	Building Department	Register of Deeds Automation Fund	Budget Stabilization Fund
REVENUES:								
Taxes	\$ 271,764	\$ -	\$ 331,352	\$ -	\$ -	\$ -	\$ -	\$ -
Federal Grants	-	88,698	-	-	-	-	-	-
State Grants	-	-	-	-	-	-	-	-
Local Contributions	-	60,933	-	-	-	-	-	-
Charges for Services	169,425	8,472	58,630	-	-	466,557	48,753	-
Fines & Forfeits	-	-	-	-	-	-	-	-
Interest & Rentals	9,123	-	15,391	-	6,934	5,975	1,196	6,781
Other Revenues	18,980	-	17,773	1,415	-	13,163	-	-
TOTAL REVENUES	469,292	158,103	423,146	1,415	6,934	485,695	49,949	6,781
EXPENDITURES:								
Judicial	-	152,054	-	-	-	-	-	-
General Government	-	-	-	-	-	-	52,354	-
Public Safety	-	-	293,305	59	-	549,025	-	-
Public Works	-	-	-	-	-	-	-	-
Health And Welfare	-	-	-	-	-	-	-	-
Recreation and Culture	447,311	-	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES	447,311	152,054	293,305	59	-	549,025	52,354	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	21,981	6,049	129,841	1,356	6,934	(63,330)	(2,405)	6,781
OTHER FINANCING SOURCES (USES):								
Operating Transfers In	-	-	-	-	-	-	-	-
Operating Transfers Out	-	-	-	-	-	(4,500)	-	(251,254)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	21,981	6,049	129,841	1,356	6,934	(67,830)	(2,405)	(244,473)
FUND BALANCES (DEFICIT), JANUARY 1	123,863	47,303	131,551	18,155	157,893	229,970	42,274	551,254
PRIOR PERIOD ADJUSTMENT	-	-	-	-	-	-	-	-
FUND BALANCES (DEFICIT), DECEMBER 31	\$ 145,844	\$ 53,352	\$ 261,392	\$ 19,511	\$ 164,827	\$ 162,140	\$ 39,869	\$ 306,781

County of Otsego, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds For the Year Ended December 31, 2006

	Special Revenue Funds							
	Legal Defense	Emergency 911 Funds	Local Officers Training	Drug Law Enforcement Fund	Law Library	Library	Department of Human Services	Child Care Probate
REVENUES:								
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 440,473	\$ -	\$ -
Federal Grants	-	-	-	-	-	-	-	-
State Grants	-	5,190	-	-	-	28,661	299,901	254,534
Local Contributions	-	-	-	-	-	-	-	-
Charges for Services	-	514,495	5,516	-	-	27,366	-	53,757
Fines & Forfeits	-	-	-	-	3,500	194,298	-	-
Interest & Rentals	-	12,913	-	-	-	32,657	325	-
Other Revenues	-	44,769	-	1,001	-	16,396	-	42,306
TOTAL REVENUES	-	577,367	5,516	1,001	3,500	739,851	300,226	350,597
EXPENDITURES:								
Judicial	-	-	-	-	6,801	-	-	-
General Government	116,933	-	-	-	-	-	-	-
Public Safety	-	541,778	343	4,823	-	-	-	-
Public Works	-	-	-	-	-	-	-	-
Health And Welfare	-	-	-	-	-	-	297,603	529,173
Recreation and Culture	-	-	-	-	-	770,546	-	-
Capital Outlay	-	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES	116,933	541,778	343	4,823	6,801	770,546	297,603	529,173
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(116,933)	35,589	5,173	(3,822)	(3,301)	(30,695)	2,623	(178,576)
OTHER FINANCING SOURCES (USES):								
Operating Transfers In	42,756	-	-	-	-	-	3,500	325,000
Operating Transfers Out	-	(12,300)	-	-	-	-	-	(131,951)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(74,177)	23,289	5,173	(3,822)	(3,301)	(30,695)	6,123	14,473
FUND BALANCES (DEFICIT), JANUARY 1	106,391	359,495	5,501	4,217	11,865	688,325	(2,138)	111,998
PRIOR PERIOD ADJUSTMENT	-	-	-	-	-	-	-	-
FUND BALANCES (DEFICIT), DECEMBER 31	\$ 32,214	\$ 382,784	\$ 10,674	\$ 395	\$ 8,564	\$ 657,630	\$ 3,985	\$ 126,471

County of Otsego, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds For the Year Ended December 31, 2006

	Special Revenue Funds							Debt Service Fund
	Soldiers and Sailors Relief	Veteran's Trust	Commission on Aging 9/30/2006	Airport	Bradford Lake	Equipment Revolving	Jail Study	Debt Service
REVENUES:								
Taxes	\$ -	\$ -	\$ 1,099,380	\$ -	\$ -	\$ -	\$ -	\$ -
Federal Grants	-	-	107,747	-	-	-	-	-
State Grants	-	4,644	72,755	-	-	-	-	-
Local Contributions	-	-	-	-	-	-	-	-
Charges for Services	-	-	119,645	858,461	-	-	-	-
Fines & Forfeits	-	-	-	-	-	-	-	-
Interest & Rentals	-	-	13,941	104,416	581	2,327	-	163,194
Other Revenues	-	-	128,211	15,611	-	-	-	-
TOTAL REVENUES	-	4,644	1,541,679	978,488	581	2,327	-	163,194
EXPENDITURES:								
Judicial	-	-	-	-	-	-	-	-
General Government	-	-	-	-	-	-	-	-
Public Safety	-	-	-	-	-	-	6,657	-
Public Works	-	-	-	1,036,856	-	-	-	-
Health And Welfare	2,360	4,682	1,361,746	-	-	-	-	-
Recreation and Culture	-	-	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	42,516	-	-
Debt Service	-	-	-	-	-	-	-	972,900
TOTAL EXPENDITURES	2,360	4,682	1,361,746	1,036,856	-	42,516	6,657	972,900
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,360)	(38)	179,933	(58,368)	581	(40,189)	(6,657)	(809,706)
OTHER FINANCING SOURCES (USES):								
Operating Transfers In	5,000	250	-	87,000	-	67,000	-	827,763
Operating Transfers Out	-	-	-	-	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	2,640	212	179,933	28,632	581	26,811	(6,657)	18,057
FUND BALANCES (DEFICIT), JANUARY 1	7,158	308	161,432	57,360	18,770	-	-	94,134
PRIOR PERIOD ADJUSTMENT	-	-	-	-	-	-	-	-
FUND BALANCES (DEFICIT), DECEMBER 31	\$ 9,798	\$ 520	\$ 341,365	\$ 85,992	\$ 19,351	\$ 26,811	\$ (6,657)	\$ 112,191

County of Otsego, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds For the Year Ended December 31, 2006

	Capital Project Funds						
	MUNIS Information System	Animal Control Shelter Building	Library Building	Airport Construction	Court Restoration Building	Capital Project	Total
REVENUES:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,142,969
Federal Grants	-	-	-	990,995	-	-	1,187,440
State Grants	-	-	-	216,780	-	-	882,465
Local Contributions	-	-	-	30,968	-	-	91,901
Charges for Services	-	-	-	-	57,444	-	2,388,521
Fines & Forfeits	-	-	-	-	-	-	197,798
Interest & Rentals	-	1,031	9,043	4,350	-	-	390,178
Other Revenues	-	-	-	20,312	-	-	319,937
TOTAL REVENUES	-	1,031	9,043	1,263,405	57,444	-	7,601,209
EXPENDITURES:							
Judicial	-	-	-	-	-	-	158,855
General Government	-	-	-	-	-	-	169,287
Public Safety	-	-	-	-	-	-	1,395,990
Public Works	-	-	-	-	-	-	1,036,856
Health And Welfare	-	-	-	-	-	-	2,195,564
Recreation and Culture	-	-	-	-	-	-	1,217,857
Capital Outlay	16,839	-	-	1,252,300	-	-	1,311,655
Debt Service	-	-	-	-	-	-	972,900
TOTAL EXPENDITURES	16,839	-	-	1,252,300	-	-	8,458,964
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(16,839)	1,031	9,043	11,105	57,444	-	(857,755)
OTHER FINANCING SOURCES (USES):							
Operating Transfers In	-	-	-	-	-	500,000	1,858,269
Operating Transfers Out	-	-	-	-	-	-	(400,005)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(16,839)	1,031	9,043	11,105	57,444	500,000	600,509
FUND BALANCES (DEFICIT), JANUARY 1	31,477	44,491	231,437	92,220	(60,969)	-	3,265,735
PRIOR PERIOD ADJUSTMENT	-	-	-	-	(338,996)	-	(338,996)
FUND BALANCES (DEFICIT), DECEMBER 31	\$ 14,638	\$ 45,522	\$ 240,480	\$ 103,325	\$ (342,521)	\$ 500,000	\$ 3,527,248

**Combining Statement of Nets Assets
Internal Service Funds
December 31, 2006**

	Building and Grounds	Administrative Services	Health Care	Total
ASSETS:				
Current Assets:				
Cash and Equivalents	\$ 41,116	\$ 20,304	\$ -	\$ 61,420
Investments	-	-	515,689	515,689
Accounts Receivable	17,741	-	348	18,089
Due from Governmental Units	3,057	-	-	3,057
Inventory	-	325	-	325
	<u>-</u>	<u>325</u>	<u>-</u>	<u>325</u>
 TOTAL ASSETS	 <u>\$ 61,914</u>	 <u>\$ 20,629</u>	 <u>\$ 516,037</u>	 <u>\$ 598,580</u>
 LIABILITIES:				
Current Liabilities:				
Accounts Payable	\$ 31,825	\$ 402	\$ 15,128	\$ 47,355
Accrued Liabilities	2,304	1,335	-	3,639
Deferred Revenue	9,315	-	-	9,315
	<u>43,444</u>	<u>1,737</u>	<u>15,128</u>	<u>60,309</u>
 TOTAL LIABILITIES	 <u>43,444</u>	 <u>1,737</u>	 <u>15,128</u>	 <u>60,309</u>
 NET ASSETS:				
Unrestricted	<u>18,470</u>	<u>18,892</u>	<u>500,909</u>	<u>538,271</u>
 TOTAL NET ASSETS	 <u>18,470</u>	 <u>18,892</u>	 <u>500,909</u>	 <u>538,271</u>
 TOTAL LIABILITIES AND FUND EQUITY	 <u>\$ 61,914</u>	 <u>\$ 20,629</u>	 <u>\$ 516,037</u>	 <u>\$ 598,580</u>

County of Otsego, Michigan

Combining Statement of Revenues, Expenses, and Changes in Net Assets - Internal Service Funds For the Year Ended December 31, 2006

	Building and Grounds	Administrative Services	Health Care	Total
OPERATING REVENUES:				
Charges for Services	\$ 563,046	\$ 376,904	\$ -	\$ 939,950
Other	-	-	1,470,747	1,470,747
TOTAL OPERATING REVENUES	563,046	376,904	1,470,747	2,410,697
OPERATING EXPENSES:				
Salaries, Wages, and Fringe Benefits	157,970	345,896	-	503,866
Contractual Services	21,580	841	-	22,421
Materials and Supplies	5,984	3,917	-	9,901
Equipment Repair and Maintenance	68,638	1,055	-	69,693
Utilities	257,092	4,562	-	261,654
Other	571	3,945	1,494,739	1,499,255
TOTAL OPERATING EXPENSES	511,835	360,216	1,494,739	2,366,790
OPERATING INCOME (LOSS)	51,211	16,688	(23,992)	43,907
Non operating Revenues (Expenses):				
Interest Earnings	-	-	24,901	24,901
Changes in Net Assets	51,211	16,688	909	68,808
Net Assets - January 1, 2006	(32,741)	2,204	500,000	469,463
Net Assets - December 31, 2006	\$ 18,470	\$ 18,892	\$ 500,909	\$ 538,271

Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended December 31, 2006

	Building and Grounds	Administrative Services	Health Care	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from Customers	\$ 548,773	\$ 377,745	\$ 1,470,635	\$ 2,397,153
Payments to Suppliers	(362,654)	(15,425)	(1,490,567)	(1,868,646)
Payments to Employees for Services and Benefits	(157,367)	(347,180)	-	(504,547)
Net Cash Provided (Used) by Operating Activities	<u>28,752</u>	<u>15,140</u>	<u>(19,932)</u>	<u>23,960</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest Earnings	-	-	24,901	24,901
Net Sale or (Purchase) of Investments	-	-	(515,689)	(515,689)
Net Cash Provided (Used) by Investing Activities	<u>-</u>	<u>-</u>	<u>(490,788)</u>	<u>(490,788)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	28,752	15,140	(510,720)	(466,828)
Balances - Beginning of the Year	<u>12,364</u>	<u>5,164</u>	<u>510,720</u>	<u>528,248</u>
Balances - End of the Year	<u><u>\$ 41,116</u></u>	<u><u>\$ 20,304</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 61,420</u></u>
Reconciliation of Operating Income (Loss) to				
Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ 51,211	\$ 16,688	\$ (23,992)	\$ 43,907
Adjustments to Reconcile Operating Income (Loss) to				
Net Cash Provided (Used) by Operating Activities:				
Change in Assets and Liabilities:				
Due from Other Governmental Units	(14,128)	-	-	(14,128)
Accounts Receivable	(145)	841	(112)	584
Accounts Payable	(8,789)	(1,005)	4,172	(5,622)
Accrued Liabilities	603	(1,384)	-	(781)
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 28,752</u></u>	<u><u>\$ 15,140</u></u>	<u><u>\$ (19,932)</u></u>	<u><u>\$ 23,960</u></u>

County of Otsego, Michigan

Combining Statement of Net Assets Nonmajor Enterprise Funds December 31, 2006

	Tax Foreclosure Fund	Global Positioning System Fund	University Center Metropolitan Area Network	Jail Commissary	Total
ASSETS:					
Current Assets:					
Cash and Equivalents	\$ 49,334	\$ 51,196	\$ 25,573	\$ 18,324	\$ 144,427
Total Current Assets	49,334	51,196	25,573	18,324	144,427
Noncurrent Assets:					
Capital Assets (Net of Accumulated Depreciation)	-	-	209,074	-	209,074
TOTAL ASSETS	<u>\$ 49,334</u>	<u>\$ 51,196</u>	<u>\$ 234,647</u>	<u>\$ 18,324</u>	<u>\$ 353,501</u>
LIABILITIES:					
Current Liabilities:					
Accounts Payable	\$ 2,798	\$ 9,647	\$ -	\$ 54	\$ 12,499
TOTAL LIABILITIES	<u>2,798</u>	<u>9,647</u>	<u>-</u>	<u>54</u>	<u>12,499</u>
NET ASSETS:					
Invested in Capital Assets	-	-	209,074	-	209,074
Unrestricted	46,536	41,549	25,573	18,270	131,928
TOTAL NET ASSETS	<u>\$ 46,536</u>	<u>\$ 41,549</u>	<u>\$ 234,647</u>	<u>\$ 18,270</u>	<u>\$ 341,002</u>

**Combining Statement of Revenues, Expenses, and Changes
in Net Assets - Nonmajor Enterprise Funds
For the Year Ended December 31, 2006**

	Tax Foreclosure Fund	Global Positioning System Fund	University Center Metropolitan Area Network	Jail Commissary	Total
OPERATING REVENUES:					
Local Sources	\$ -	\$ 9,000	\$ -	\$ -	\$ 9,000
Charges for Services	52,175	45,820	39,883	6,197	144,075
TOTAL OPERATING REVENUES	52,175	54,820	39,883	6,197	153,075
OPERATING EXPENSES:					
Contractual Services	-	60,747	-	-	60,747
Materials and Supplies	5,650	2,462	43,274	12,944	64,330
Depreciation	-	-	12,298	-	12,298
TOTAL OPERATING EXPENSES	5,650	63,209	55,572	12,944	137,375
OPERATING INCOME (LOSS)	46,525	(8,389)	(15,689)	(6,747)	15,700
NON OPERATING REVENUES (EXPENSES):					
Interest Earnings	11	-	438	-	449
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	46,536	(8,389)	(15,251)	(6,747)	16,149
Operating Transfers In	-	9,000	-	-	9,000
Changes in Net Assets	46,536	611	(15,251)	(6,747)	25,149
Net Assets - January 1, 2006	-	40,938	249,898	25,017	315,853
Net Assets - December 31, 2006	\$ 46,536	\$ 41,549	\$ 234,647	\$ 18,270	\$ 341,002

**Combining Statement of Cash Flows
Non-Major Enterprise Funds
For the Year Ended December 31, 2006**

	Tax Foreclosure Fund	Global Positioning System Fund	University Center Metropolitan Area Network	Jail Commissary	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from Customers	52,175	\$ 54,820	\$ 50,063	\$ 6,197	\$ 163,255
Payments to Suppliers	(2,852)	(57,484)	(43,274)	(12,990)	(116,600)
Net Cash Provided (Used) by Operating Activities	49,323	(2,664)	6,789	(6,793)	46,655
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Operating Transfers In	-	9,000	-	-	9,000
Net Cash Provided (Used) by Noncapital Financing Activities	-	9,000	-	-	9,000
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest Earnings	11		438		449
Net Cash Provided (Used) by Investing Activities	11	-	438	-	449
Net Increase (Decrease) in Cash and Cash Equivalents	49,334	6,336	7,227	(6,793)	56,104
Balances - Beginning of the Year	-	44,860	18,346	25,117	88,323
Balances - End of the Year	\$ 49,334	\$ 51,196	\$ 25,573	\$ 18,324	\$ 144,427
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Operating Income (Loss)	\$ 46,525	\$ (8,389)	\$ (15,689)	\$ (6,747)	\$ 15,700
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Depreciation Expense	-	-	12,298	-	12,298
Change in Assets and Liabilities:					
Accounts Receivable	-	-	10,180	-	10,180
Accounts Payable	2,798	5,725	-	(46)	8,477
Net Cash Provided (Used) by Operating Activities	\$ 49,323	\$ (2,664)	\$ 6,789	\$ (6,793)	\$ 46,655

Reports on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Members of the Board
County of Otsego, Michigan
225 West Main Street
Gaylord, Michigan 49735

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Otsego, Michigan, as of and for the year ended December 31, 2006, which collectively comprise the County of Otsego, Michigan's basic financial statements and have issued our report thereon, dated May 4, 2007. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Otsego County Road Commission and the Otsego County Commission on Aging, as described in or report on the County of Otsego, Michigan's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County of Otsego, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County of Otsego, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the deficiencies described in the accompanying summary schedule of prior audit findings to be significant deficiencies in internal control over financial reporting, as items 04-2 and 03-1.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 04-2 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County of Otsego, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and questioned costs as item 06-1.

We also noted certain additional matters that we reported to management of the County of Otsego, Michigan in a separate letter dated May 4, 2007.

Otsego County's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs and summary schedule of prior audit findings. We did not audit Otsego County's responses; and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Commissioners, management, federal awarding agencies, pass-through entities and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

May 4, 2007



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Members of the Board
County of Otsego, Michigan
225 West Main Street
Gaylord, Michigan 49735

Compliance

We have audited the compliance of the County of Otsego, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

In our opinion, the County of Otsego, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

Internal Control Over Compliance

The management of the County of Otsego, Michigan is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County of Otsego, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A control deficiency in a entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the County's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Commissioners, audit committee, management, federal awarding agencies, pass-through entities and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

May 4, 2007

County of Otsego, Michigan

Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2006

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE:			
Passed Through Northeast Michigan Community Service Agency, Inc			
Nutrition Services Incentive-Title III C1	10.570	N/A	\$ 15,046
Nutrition Services Incentive-Title III C2	10.570	N/A	10,915
			<hr/> 25,961
U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT:			
Pass-through programs from the Michigan State Housing Development Authority:			
Community Development Block Grant	14.228	M-2003-0812	<hr/> 61,670
U.S. DEPARTMENT OF JUSTICE:			
Pass-through programs from the Michigan Department Human Services:			
Juvenile Accountability Incentive Block Grant - 02/01/05 to 01/31/06	16.523	JABGN-05-69001	7,372
Juvenile Accountability Incentive Block Grant - 02/01/06 to 01/31/07	16.523	JABGN-06-69001	<hr/> 31,033
Total U.S. Department of Justice			<hr/> 38,405
U.S. DEPARTMENT OF TRANSPORTATION			
Pass-through programs from the Michigan Department of State Police:			
HMEP	20.503	N/A	652
Pass-through programs from the Michigan Department of Transportation:			
Road Projects - State Administered	20.205	N/A	893,795
Airport Project - State Administered	20.106	N/A	990,995
Capital Assistance - Section 5309	20.500	2002-0079/Z16	120,000
Operating Grant - Section 5311	20.509	2002-0079/Z17	<hr/> 256,260
Total U.S. Department of Transportation			<hr/> 2,261,702
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through programs from the Michigan Department of Human Services:			
Incentive Reimbursement	93.563	N/A	38,712
PA CRP Title IV-D - 10/1/05 to 9/30/06	93.563	CS/PA-06-69002	24,750
PA CRP Title IV-D - 10/1/06 to 9/30/07	93.563	CS/PA-07-69002	9,271
FOC CRP Title IV-D - 10/1/05 to 9/30/06	93.563	CS/FOC-06-16001	455,151
FOC CRP Title IV-D - 10/1/06 to 9/30/07	93.563	CS/FOC-07-16002	<hr/> 144,529
Subtotal - DHS			<hr/> 672,413

County of Otsego, Michigan

Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2006

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
Pass-through programs from the Michigan Office of Services to the Aging: Passed Through Northeast Michigan Community Services Agency, Inc. Special Programs for the Aging Title III Part B - Supportive Services and Senior Centers Respite Homemaker Personal Care Title III Part C - Nutrition Services Congregate Meals Home Delivered Meals Title III Part E - National Family Caregiver Support Advocacy Support Respite Resource Room Healthy Moves Grand Parent Medicaid Waiver	93.044 93.044 93.044 93.045 93.045 93.052 93.052 93.052 93.052 93.052 93.778	N/A N/A N/A N/A N/A N/A N/A N/A N/A N/A N/A	2,000 11,527 10,254 27,707 8,946 2,000 2,967 2,000 2,000 600 11,785
Total passed through NEMCSA			81,786
Total U.S. Department of Health and Human Services			754,199
U.S. DEPARTMENT OF HOMELAND SECURITY			
Pass-through programs from the Michigan Department of State Police, Emergency Management Division: Emergency Management Performance Grants 10/01/05-09/30/06 2004 Interoperable Equipment 2004 Homeland Security Grant Program - Equipment 2005 Homeland Security Grant Program - Equipment 2005 Law Enforcement Terrorism PP	97.042 97.004 97.004 97.067 97.067	N/A N/A N/A N/A N/A	9,952 22,000 300 13,536 4,576
Total passed through MDSP, EMD			50,364
Pass-through programs from the Michigan Department of Natural Resources: Marine Safety Grant	97.012	MS-2006	3,632
Total U.S. Department of Homeland Security			53,996
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 3,195,933</u>

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the County of Otsego, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - COGNIZANT AGENCY

The County has not been assigned a cognizant agency. Therefore, the County is under the general oversight of the U.S. Department of Transportation which provided the greatest amount of indirect federal funding to the County during 2006.

NOTE C - FEDERAL REVENUES

Federal Revenues per Financial Statement:		
Government Funds		\$ 1,917,977
Enterprise Funds:		
Operating	276,122	
Capital	<u>120,000</u>	
Subtotal		396,122
Federal Expenditures of		
Road Commission		893,795
State Grants Classified as Federal		<u>(11,961)</u>
Total Federal Expenditures		<u>\$ 3,195,933</u>

NOTE D - FEDERAL GRANTS – ROAD COMMISSION:

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the fiscal year ended December 31, 2006, the Federal aid received and expended by the Road Commission was \$893,795 for contracted projects. Contracted projects are defined as projects performed by private contractors that are paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commission, as they are included in MDOT's single audit.

NOTE E – AIRPORT GRANTS

The Michigan Department of Transportation (MDOT) requires that airports report all Federal and State grants pertaining to their county. During the calendar year ended December 31, 2006, the Federal aid received and expended by the Airport was \$990,995 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted federal projects are not subject to single audit requirements by the airports as they are included in MDOT's single audit.

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified? Yes

Significant deficiencies identified
that are not considered to be
material weaknesses? Yes

Noncompliance material to financial
statements noted? Yes

Federal Awards

Internal control over major programs:

Material weaknesses identified? No

Significant deficiencies identified
that are not considered to be
material weaknesses? No

Type of auditors' report issued on
compliance for major programs: Unqualified

Any audit findings disclosed that are
required to be reported in accordance
with section 510(a) of Circular A-133? No

Identification of Major Programs**CFDA NUMBERS**

93.563
97.004 and 97.067

Name of Federal Program or Cluster

Child Support Enforcement
Homeland Security Grants

Dollar threshold used to distinguish
between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? No

Section II – Financial Statement Findings**STATUTORY COMPLIANCE****Deficit Fund Balances/Net Assets***Finding 06-1*

Condition: As of December 31, 2006, a deficit existed in the unreserved fund balance (governmental funds) and unreserved net assets (proprietary fund) in the following funds:

	<u>Fund Balance</u>
Special Revenue:	
Jail Study	\$ (6,657)
Capital Project:	
Courthouse Restoration	(342,521)

Criteria: Noncompliance with PA 140 of 1971, as Amended, Failure to File Reports and Deficit Elimination Plans.

“For a fiscal year of a unit of local government ending on or after October 1, 1980 or any year thereafter, if a local unit of government ends its fiscal year in a deficit condition, the local unit of government shall formulate and file a financial plan within 90 days after the beginning of the fiscal year to correct this condition. Upon request of a local unit of government the Department of Treasury may assist that local unit in the formulation of the financial plan to correct the deficit condition. The local unit of government shall file the financial plan with the Department of Treasury for evaluation and certification that the plan ensures that the deficit condition is corrected. Upon certification by the Department of Treasury, the local unit of government shall institute the plan. An amount equal to 25% of each payment to a local unit of government entitled to payments under this act may be withheld until requirements of this subsection are met.”

The County failed to formulate and file a deficit elimination plan within 90 days after the beginning of a fiscal year to correct a deficit condition which existed at the end of the previous fiscal year (MCL 141.921(2)). The financial plan is to be filed with the state treasurer.

Cause: Unknown.

Recommendation: We direct the County to file a Deficit Elimination Plan as required by PA 140 of 1971, as amended. If the deficit has been eliminated subsequent to December 31, 2006, the county should still submit a plan and demonstrate that the plan has already been completed with the desired results.

- Contact Person(s) Responsible for Correction
John Burt, County Administrator

Section II – Financial Statement Findings – (Continued)

STATUTORY COMPLIANCE (Continued)

- **Corrective Action Planned**
It was not possible for the county administrator to file this report accurately or timely due to items mentioned in previous comments, along with the previous management responses.
- **Anticipated Completion Date**
All reports will be filed within 30 days of receiving accurate, audited 2006 figures.

Section III – Federal Award Findings and Questioned Costs

NONE.

Section II – Financial Statement Findings

STATUTORY COMPLIANCE

Excess Expenditures Over Appropriations

Finding 05-1

Condition: As indicated in the notes to financial statements, the County of Otsego has not complied with certain provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act. The act requires the board of commissioners to make budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

Fiscal year ending December 31, 2005 expenditures were incurred in excess of amounts appropriated in the amended budgets for the activities or functions of the General Fund and Special Revenue Funds are as follows:

	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General:			
Other Expenditures	\$ 573,699	\$ 964,044	\$ (390,345)
Transfer Out	854,993	1,132,608	(277,615)
Special Revenue:			
Public Improvement Transfers Out	-	139,271	(139,271)
Friend of the Court	145,894	181,610	(35,716)
Department of Human Services	-	261,868	(261,868)

Criteria: Noncompliance with PA2 of 1968, as amended: Uniform Budgeting and Accounting Act.

Cause: Unknown.

Recommendation: The board of commissioners should amend the budget as needed to prevent actual expenditures from exceeding those provided for in the budget as required by Public Act 2 of 1968, as amended.

Management Response:

- Contact Person(s) Responsible for Correction
John Burt, County Administrator
- Corrective Action Planned
The county administrator has the authority, per board motion, to make necessary budget transfers to keep certain budgets from showing a deficit. The administrator will monitor all funds to ensure compliance.
- Anticipated Completion Date
The corrective procedures are in place.

Status: Corrected.

Section II – Financial Statement Findings – (Continued)

STATUTORY COMPLIANCE (Continued)Deficit Fund Balances/Net Assets

Finding 05-2

Condition: As of December 31, 2005, a deficit existed in the unreserved fund balance (governmental funds) and unreserved net assets (proprietary fund) in the following funds:

	<u>Fund Balance</u>	<u>Net Assets</u>
Special Revenue		
Department of Human Services	\$ (2,198)	\$ -
Internal Service		
Building and Grounds	-	(32,741)

Criteria: Noncompliance with PA 140 of 1971, as Amended, Failure to File Reports and Deficit Elimination Plans.

“For a fiscal year of a unit of local government ending on or after October 1, 1980 or any year thereafter, if a local unit of government ends its fiscal year in a deficit condition, the local unit of government shall formulate and file a financial plan within 90 days after the beginning of the fiscal year to correct this condition. Upon request of a local unit of government the Department of Treasury may assist that local unit in the formulation of the financial plan to correct the deficit condition. The local unit of government shall file the financial plan with the Department of Treasury for evaluation and certification that the plan ensures that the deficit condition is corrected. Upon certification by the Department of Treasury, the local unit of government shall institute the plan. An amount equal to 25% of each payment to a local unit of government entitled to payments under this act may be withheld until requirements of this subsection are met.”

The County failed to formulate and file a deficit elimination plan within 90 days after the beginning of a fiscal year to correct a deficit condition which existed at the end of the previous fiscal year (MCL 141.921(2)). The financial plan is to be filed with the state treasurer.

Cause: Unknown.

Recommendation: We direct the County to file a Deficit Elimination Plan as required by PA 140 of 1971, as amended. If the deficit has been eliminated subsequent to December 31, 2005, the county should still submit a plan and demonstrate that the plan has already been completed with the desired results.

- Contact Person(s) Responsible for Correction
John Burt, County Administrator

Section II – Financial Statement Findings – (Continued)

STATUTORY COMPLIANCE (Continued)

- Corrective Action Planned

It was not possible for the county administrator to file this report accurately or timely due to items mentioned in previous comments, along with the previous management responses.

- Anticipated Completion Date

All reports will be filed within 30 days of receiving accurate, audited 2004 figures.

Status: There were deficits at the end of 2005; however, the county did file a deficit elimination plan within the required 90 days after year end. We consider this matter corrected.

MATERIAL WEAKNESSES

The following conditions are considered material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk of misstatements in amounts that would be material in relation to the financial statements.

Circuit Court Bond Account Reconciliation

Finding 04-1

Condition: The Circuit Court does not maintain a listing of open bonds payable or restitution payables. Upon inquiry and inspection, we found that the Circuit Court does not reconcile the open bonds payable to the general ledger control balance.

Criteria: The Michigan Court Administration Reference Guide 6-05-15 2 states, “The total outstanding balance in the bond, restitution, and trust ledger(s) should be reconciled to the applicable trust bank statement balance and/or local funding unit trust account balance on a monthly basis. The reconciliations should be retained for audit.”

Recommendation: We recommend the Circuit Court reconcile monthly the open bond, restitution, and trust ledger(s) with the general ledger control accounts.

- Contact Person(s) Responsible for Correction

Suzy Defeyter, County Clerk

- Corrective Action Planned

I will be compiling a list of all of the open bonds and outstanding restitution accounts and balance to the general ledger reports.

- Anticipated Completion Date

December 31, 2005.

Status: Corrected.

Section II – Financial Statement Findings – (Continued)

MATERIAL WEAKNESSES (Continued)

General Inmate Fund Bank Account Reconciliation

Finding 04-2

Condition: The general inmate fund bank account balance is not properly reconciled monthly to the checkbook balance administered by jail personnel.

Criteria: All bank accounts must be reconciled in a timely manner and reconciled to subsidiary records. The reconciliation must contain a listing of deposits in transit and outstanding checks. All discrepancies must be investigated.

Recommendation: We recommend that the bank balance be reconciled to the checkbook balance and the checkbook balance be reconciled to the total inmate account balances, after all commissions earned from commissary sales are transmitted to the county treasurer. And discrepancies should be investigated and corrected promptly. This should be done monthly on a timely basis.

- Contact Person(s) Responsible for Correction
James McBride, County Sheriff
- Corrective Action Planned
In the matter concerning reconciliation, the corrective action being implemented will be in compliance with the auditor's recommendation. Monthly, the inmate checking account checkbook will be balanced with the monthly bank statement and account balances, the bank account has been changed to a business account to aid in the process. Also, a new software program (Swanson Cobra Banker) has been installed and implemented. The new software allows easier bank reconciliation.
- Anticipated Completion Date
In accordance with this recommendation, this will be done monthly in a timely manner.

Status: The account is reconciled but not to the inmate account balances.

Treasurer – Posting of Chargebacks

Finding 04-8

Condition: The County treasurer's office had not posted its board of review and other delinquent tax adjustments for the past 18 months which created discrepancies between the general ledger and the subsidiary records. These adjustments were only posted after the audit had begun.

As of December 31, 2004, a balance of \$467,200 was recorded as a receivable in the delinquent tax fund. The balance has accumulated over the past two years as the County has not charged back the local units of the County for changes in delinquent taxes created by adjustments, such as board of reviews. Included in the \$467,200 was an improper refund of \$166,369 to a taxpayer for tax tribunal adjustments relating to delinquent personal property taxes from 1998 through 2003.

Section II – Financial Statement Findings – (Continued)

MATERIAL WEAKNESSES (Continued)

Criteria: According to MCL 211.87b, a delinquent tax fund may be created by counties to maintain balances for delinquent taxes for real property taxes unpaid. Upon the establishment of the fund, all delinquent taxes, except taxes on personal property, due and payable to the taxing units in the County, are due and payable to the County. Delinquent **personal** property taxes are to be collect by the cities, villages and townships. When an adjustment is made to these amounts by activities such as board of reviews, the County shall adjust its records by increasing or decreasing the amount owed. If the amount is decreased, said amount is to be refunded to the property owner and reimbursed to the County from the local units based on the millage levied. All adjustments are to be posted in a timely manner.

Recommendation: We recommend that the treasurer's office immediately begin charging back the local units for the balance of the adjustments owed to the County and that in the future all adjustments such as board of reviews be posted and billed timely.

- Contact Person(s) Responsible for Correction
Diann Axford, County treasurer
- Corrective Action Planned
The process of chargebacks is from April 1 through March 31 of the next year, not 18 months. The process of chargebacks has been done this way for many years and as the new treasurer, I have continue doing it the way it was always done. At the end of settlement, the chargebacks are adjusted with the delinquent amounts due the townships, schools, etc., therefore getting our money returned to us.
- Anticipated Completion Date
The corrective procedures are already in place.

Addendum: Board of reviews and other adjustments are performed twice a year. The last posting of any amount relating to a chargeback was posted in September 2003. No chargebacks were performed in 2004. Therefore, the County has not collected the chargebacks relating to the December 2003 board of review period or the two boards of review periods in 2004.

MCL 211.87, Section (4,5), concerning adjustment of accounts; statement of account; interest on delinquent payments; chargeback lists states, "The county treasurer of each county shall, on or before the fifteenth day of each month, make out a detailed statement of accounting for the preceding calendar month between the county and the local tax collecting units in that county. The statement shall show the different funds to which the several debits and credits belong. The county treasurer shall deliver the statement to the treasurer of the local tax collecting unit and pay the amount shown by the statement to the local tax collecting unit. The county treasurer shall notify the clerk of the local tax collecting unit of the total amount paid and provide a description of the property upon which the taxes were paid. The county clerk shall charge that amount to the county treasurer, and the clerks of the local tax collecting units shall charge that amount to the treasurers of the local tax collecting units on the books of their respective offices.

Section II – Financial Statement Findings – (Continued)

Treasurers for the local tax collection units are not required to make a settlement with the county treasurer for the items of state and county taxes included in the annual chargeback list until the annual settlement with the county treasurer.

The state charges the county back monthly and provides a quarterly statement showing the chargeback amounts. In turn, the county charges the local units back prior to making payment to them as required by the 15th and 30th of each month, while taxes are collected for the local unit.

Status: Corrected.

OTHER SIGNIFICANT DEFICIENCIES

Although the following are not considered material weaknesses in internal control, we wish to point out certain other significant deficiencies for consideration by the management of Otsego County.

Treasurer – Common Account Reconciliation

Finding 03-1

Condition: Since the discontinuance of the sweep account for vendor payments and the re-establishment of a separate account for these payments, the general checking account monthly reconciliations continue to show variances with the general ledger. The initial unexplained variances date back to 2001 and have not been fully resolved as of the audit date. We also found that the reconciliation procedures employed by the treasurer's office are unnecessarily complex. The reconciliation reconciles the book to bank instead of the adjusted bank to the book balance.

At the beginning of 2005, the County hired a local accounting firm to help reconcile the common bank account. Upon further review, the accounting firm found that other bank accounts, including the payroll checking and housing accounts, were also not reconciled. We also found that the investment accounts were not reconciled which lead to adjustments made to all investment accounts in nearly all the funds.

Finally, the County has established a cash line-item titled "Equity in Pooled Cash" for all funds using multiple common bank accounts that are reconciled together as common cash. These common bank accounts consist of both cash and investments.

Criteria: Strong internal controls require that bank accounts be reconciled on a timely basis. All local governmental units must establish physical control to secure and safeguard vulnerable assets. Examples include security for and limited access to assets such as cash, securities, inventories, and equipment which might be vulnerable to the risk of loss or unauthorized use. Such assets should be periodically counted and reconciled to control records.

Further, the Uniform Chart of Accounts established by the Michigan Department of Treasury establishes line-items for both cash and investments. The separation of these accounts is also necessary for the facilitation of the financial statements for reporting requirements established by the Governmental Accounting Standards Board Statements No. 40.

Section II – Financial Statement Findings – (Continued)

OTHER SIGNIFICANT DEFICIENCIES (Continued)

Recommendation: We recommend that procedures be established that fully reconcile all bank accounts to the general ledger on a monthly basis. Additionally, we recommend that the treasurer establish sub accounts for cash and investment accounts that reconcile to the individual bank or financial institution accounts. Currently, several bank accounts may reconcile to a single general ledger account. This requires that each journal entry, affecting a bank account, be tracked on a set of complex spreadsheets.

- Contact Person(s) Responsible for Correction
Diann Axford, County Treasurer
- Corrective Action Planned
Payroll and housing accounts were reconciled as of December 31, 2004, and copies were given to the auditors along with the reconciliation done by the accounting firm in 2005. There were some transfers that needed to be taken care of and that has been taken care of.
- Anticipated Completion Date
Corrective action has already been done.

Status: There was substantial improvement in this area. All bank accounts are now reconciled on a monthly basis. The reconciliations should be performed on a timelier basis (within a month). Separate accounts are now in place for cash and investments. The reconciliations are still completed reconciling from book balance to bank instead of ending bank to book.

Cooperative Reimbursement Payments Due to Crawford and Kalkaska County***Finding 04-14***

Condition: As of December 31, 2004, the Friend of the Court Fund (Fund 215) had a balance due to Crawford County of \$36,560 and a balance due to Kalkaska County \$24,913 for their share of the cooperative reimbursement program grant revenue received by Otsego County. The grant revenue is received by Otsego County because they have been appointed the lead county of the three county court system. These amounts are a total of the last two years of activity as no amounts have been disbursed to the other counties as of the year end.

Criteria: The revenue received by Otsego County on behalf of the other counties should be paid on the schedule agreed upon by the three counties and the court administrator.

Recommendation: We recommend that these balances listed above immediately be distributed to the other counties and that procedures be implemented to ensure the timely distribution of grant revenue in accordance with the agreement between the three counties.

- Contact Person(s) Responsible for Correction
Diann Axford, County Treasurer

Section II – Financial Statement Findings – (Continued)

OTHER SIGNIFICANT DEFICIENCIES (Continued)

- **Corrective Action Planned**

After researching the above condition, I found that this is a matter that the courts had taken over to do. It is not the responsibility of the treasurer's department. The money that comes into these line-items for Crawford and Kalkaska are debited at the end of the year by a journal entry and applied to the line-item "due from other counties." This reduces the amounts that Crawford and Kalkaska Counties owe to Otsego County, and then they are billed for the balance remaining. It looks like the journal entry was not done for year end.

- **Anticipated Completion Date**

Will contact person responsible in the court system and see that this is processed.

Status: Corrected.



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMAN, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

REPORT TO MANAGEMENT

County of Otsego, Michigan
225 W. Main St.
Gaylord, Michigan 49735

We have audited the basic financial statements of the County of Otsego; Michigan for the period ended December 31, 2006, and have issued our reports thereon dated May 4, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the County of Otsego's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the County of Otsego's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the County of Otsego's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the County of Otsego's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the County of Otsego's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the County of Otsego are described in Note 1 to the financial statements. We noted no transactions entered into by the County of Otsego during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the County of Otsego's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the County of Otsego, wither individually or in the aggregate, indicate matters that could have a significant effect on the County of Otego's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the County of Otsego's financial statements our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the County of Otsego's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Comments and Recommendations

Investments (Prior Year)

We noted that the unrealized gains/losses on investments for 2006 were not recorded in fiscal year 2005 and 2006. We recommend that an adjustment be recorded at year end for the unrealized gains/losses to adjust the investment balance to market.

Inventory (Prior Year)

The airport fuel inventory recorded on the general ledger has not been updated at year end. We recommend that the inventory balance be updated periodically to an actual count.

Interest Receivable – Delinquent Tax Fund (Prior Year)

Because the Delinquent Tax Fund is on the full accrual method of accounting, an interest receivable should be accrued for the 2005 and 2004 tax collections.

Summer Tax Levy (Prior Year)

With the change in the funding of Revenue Sharing various issues have surfaced. The State allowed Counties to place an amount equal to 1/3 of their 2004 levy for three years from the 2004, 2005, and 2006 levies in a Reserve fund each January. To replace this 1/3 taken from the operating levy the County is allowed to levy a summer tax beginning in July of 2005. 1/3 of the 2005 levy, 2/3 of the 2006 levy and 3/3 of the 2007 levy would be summer collections. This process of funding would allow the Counties to still fund Revenue Sharing and still receive 100% of their operating levies each year. One area of concern is that the summer collections are not completely received in cash at year end. Furthermore, the delinquent amount is not received until tax settlement in the subsequent year. This creates a cash flow shortage which can be alleviated by borrowing from the Revenue Sharing Reserve Fund. It also creates a revenue recognition issue in that the revenue is not collected within 60 days of year end. It is collected when tax settlement occurs in March. In summary, because the legislature intended that the summer levy would make the Counties operating levy whole, we recommend that taxes receivable and taxes revenue be recorded to account for the uncollected summer levy at year end. Also, the County should consider the effect of the above changes on its cash flow needs.

Personal Property Taxes

Currently, the County is not recording the amount of outstanding delinquent personal property taxes that are due to the County in the general ledger. It is recommended the County record the amount of outstanding delinquent personal property taxes in the general ledger of each fund that has a tax levy. The County should maintain subsidiary ledgers which show the amount of delinquent personal property taxes owed by each taxing unit by individual tax year.

Hanger Leases

Currently, the Airport is not utilizing a written agreement for the leases/rental of hangers. We recommend that a written agreement be executed for each individual lease/rental.

Airport Receipts

Currently, the Airport is not utilizing prenumbered receipts for monies received. To strengthen internal controls we recommend that prenumbered receipts be utilized for all collection at that location.

Bonuses

When we reviewed accrued payroll at the University Center we noted \$19,000 accrued which was for bonuses for three individuals for 2006. We asked management for board approval of the bonuses and the only thing noted in the minutes was that the board approved compensation packages for 2007 with no mention of the bonuses. We recommend that approval of bonuses be noted in the board minutes to evidence their approval.

Delinquent Tax Settlement

During our testing of the delinquent tax settlement we noted an unreconciled difference of \$26,668 and we also noted an adjusting journal entry of that amount made to adjust the general ledger to the delinquent taxes receivable detail. Basically, the amount that was settled with the individual units was not in agreement with supporting documentation. The Otsego County Fire Department did not receive their settlement of \$10,825. The S.E.T. tax settlement amount was \$10,547 less than the amount noted in the supporting documentation. The Bagley Township and Chester Township tax settlement amounts did not reconcile with the supporting documentation. We recommend that management review its current procedures relating to delinquent tax settlements and make improvements to ensure that the tax settlements are completed in the most efficient and accurate manner.

Payroll

In our testing of payroll, it was noted that many employees W-4's are outdated. It is recommended that employees periodically complete and update their W-4's.

In our testing of payroll it was noted that some employees did not have I-9 or Michigan New Hire forms in their personnel files. It is recommended employees hired after November 6, 1986 have a completed I-9 included in their personnel file and employees hired after October 1, 1997 have a completed Michigan New Hire form in their personnel file.

Disbursements

In our testing of the disbursements system, it was noted that one check could not be traced to the check register due to a printing error on that date and were not able to reprint the corrected check register. It is recommended the County retain the most current and accurate check register.

GASB Statement 45 – Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions

In June 2004, the GASB issued Statement 45, which establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes post-employment healthcare as well as other post-employment benefits such as life insurance.

The Statement is implemented in three phases, with the County of Otsego required to implement the Statement for the year ended December 31, 2008. GASB Statement 45 will impact the future accounting of post-employment health insurance costs as it relates to the amount the County will be required to pay for these benefits. Beginning in 2008, the County will be required by governmental generally accepted accounting principles to pay the current cost of providing those benefits as well as an amount needed to fund a portion of the unfunded liability relating to post-employment health benefit. The unfunded liability will be required to be actuarially determined and will be amortized over a period likely not to exceed thirty years. The methods used as part of Statement 45 are similar to those currently used to determine required contribution rates for defined benefit pension plans.

The County Board of Commissioners as well as County Management should begin to consider the impact of GASB Statement 45 prior to the required implementation date.

Conclusion

This information is intended solely for the information and use of the Board of Commissioners, management, federal and state awarding agencies, pass-through entities and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "Anderson Tackman & Co. PLC".

Anderson Tackman & Company, PLC
Certified Public Accountants

May 4, 2007